

125108

JPRS-CEA-86-022

5 March 1986

China Report

ECONOMIC AFFAIRS

19980921 157

DTIC QUALITY INSPECTED 2

DISTRIBUTION STATEMENT A

Approved for public release;
Distribution Unlimited

FBIS

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY
NATIONAL TECHNICAL
INFORMATION SERVICE
U.S. DEPARTMENT OF COMMERCE
SPRINGFIELD, VA. 22161

2
78
A45

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

5 March 1986

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

NATIONAL POLICY AND ISSUES

- GUANGMING RIBAO on Definitions of Working Class
(Pan Peixin; GUANGMING RIBAO, 27 Jan 86) 1

ECONOMIC PLANNING

- LIAOWANG on Diverting Water From South to North
(Li Shiyi; LIAOWANG OVERSEAS EDITION, No 4, 27 Jan 86) 5

- Henan Radio on Formulation of Development Strategy
(Henan Provincial Service, 3 Feb 86) 10

- Liaoning Provincial Economic Work Conference Ends
(Liaoning Provincial Service, 5 Feb 86) 12

- Briefs
Welcoming Auditing Work 13

AGGREGATE ECONOMIC DATA

- Tianjin's Rural Economic Development in Past 5 Years
(TIANJIN RIBAO, 27 Jan 86) 14

- Liaoning Publishes Communique on Economic, Social Development
(Liaoning Provincial Service, 6 Feb 86) 16

- Briefs
Anhui Industrial-Agricultural Output 17
Heilongjiang Overfulfills Most Targets 17
Gansu's Township Output Value 17

ECONOMIC MANAGEMENT

- Cooperation Drive Breaks Old Trade Barriers
(XINHUA, 13 Feb 86) 18

Scientific Research, Production Work Together (XINHUA, 13 Feb 86)	20
State Commission Praises Research Sales (XINHUA, 13 Feb 86)	22
Science Association on Promotion of Local Economy (XINHUA, 17 Feb 86)	23
Briefs	
Industrial Development Investigated	25
Lateral Economic Ties	25
Price Monitoring Stations	26

FINANCE AND BANKING

JINGJI CANKAO Cited on Issuing International Bonds (ZHONGGUO XINWEN SHE, 25 Nov 85)	27
Shandong Financial Work Conference Sets Tasks (Shandong Provincial Service, 30 Jan 86)	29
Shenyang Banking Reforms Boost Businesses (XINHUA, 7 Feb 86)	31
Briefs	
Shanghai Port Nontrade Earnings	33
Shanghai Income Tax	33
Zhejiang Savings Deposits	33
State Treasury Bonds	33
Beijing Tax Revenue	33
Decision on Deficits	33
Overseas Bank Branches	34
Postal Banking Services Begin	34

MINERAL RESOURCES

Briefs	
Jiangxi Mineral Resources	35

INDUSTRY

Investments in Building Materials Industry (Ge Daxing; XINHUA Domestic Service, 7 Feb 86)	36
Hunan Scores Success in Ordinance Industry Transformation (Hunan Provincial Service, 9 Feb 86)	38
Briefs	
Zhejiang Industrial Output	39
Zhejiang Light Industry	39

FOREIGN TRADE AND INVESTMENT

Long-Term Strategy for Tungsten Export (Cui Yue; GUOJI MAOYI WENTI, No 5, Sep-Oct 85)	40
Shanghai Foreign Trade Thriving During Sixth 5-Year Plan (Xu Qiuliang, Gao Xiaoxiao; JIEFANG RIBAO, 5 Nov 85)	47
Briefs	
Guangdong Technology Imports	49

LABOR AND WAGES

State Employees' Wages Increase 2.4-18.7 Percent (XINHUA, 14 Feb 86)	50
---	----

TRANSPORTATION

Briefs	
Shandong Transportation Development	51
Shandong Vehicles	51
Shanghai Harbor Freight	51

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

PRC Journal Views USSR Enterprise Ownership, Operation (Lin Shuiyuan; SHIJIE JINGJI, No 10, 10 Oct 85)	52
South Korea's Recession of 1980; Response, Outcome (Li Changhuan, Cao Shigong; XIANDAI GUOJI GUANXI, No 7, Sep 84)	64

HONG KONG

Hong Kong Banker Predicts Slowdown for Trade With PRC (Paul Sham; SOUTH CHINA MORNING POST, 3 Feb 86)	65
Report Notes Business Uncertainty in Hong Kong (Paul Baran; SOUTH CHINA MORNING POST, 6 Feb 86)	67
Hong Kong Textile Manufacturers Remain Uneasy (SOUTH CHINA MORNING POST, 7 Feb 86)	70
PRC Banks Look Toward European Currency Unit Market (Chito Santiago, Meiling Liu; HONG KONG STANDARD, 4 Feb 86) ...	72

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON DEFINITIONS OF WORKING CLASS

HK101319 Beijing GUANGMING RIBAO in Chinese 27 Jan 86 p 4

[Article by Pan Peixin: [3382 1014 2450]: "Controversy Over 'Who Belongs to the Working Class' in Foreign Countries"]

[Text] In modern capitalist society, due to the scientific and technological revolution and the development of state monopoly capitalism, great changes have taken place in the structure of social classes, and the question of "who belongs to the working class" has become a never-ending controversy. Scholars from both socialist countries and developed capitalist countries all have different opinions. There are mainly three different opinions:

First, only the hired laborers creating surplus value belong to the working class. Their often-quoted basis is that Marx once pointed out that "in economics, proletarians can only be understood as hired laborers producing and increasing "capital." For example, Soviet scholar Shemionov [Xie Miao Nuo Fu 6200 5379 6179 1133] defined the working class as: "The working class under the condition of capitalism is the class of contemporary hired workers who do not have their own means of production but sell their labor to capitalists and directly produce surplus value and capital for capitalists." The book "State Monopoly Capitalism--An Introduction to Marxist Political Economics" published by the French Communist Party says: "Regardless of the complexity and nature of labor (whether physical or mental labor) and the departments of labor, the criterion for determining the working class should be mainly based on three facts: Non-possession of the means of production, non-possession of commodities produced, and non-participation in the distribution of surplus value.... These facts highlight the decisive criterion of the working class as creating surplus value in the field of material production." This is the definition in a so-called narrow sense.

According to this division, non-productive workers, commercial workers, administrative personnel, scientific and technological personnel, and so on have to be excluded from the working class. Many people believe that this definition narrows the concept of the working class. It is acceptable if this definition only refers to the working class in the 19th century and early 20th century, as capital absolutely predominated in the industrial departments at that time. Because the non-productive industry was not very developed at that time, the few workers in this field primarily served the needs of the capitalist class.

However, at this point, this definition does not tally with the actual conditions of the working class, as it underestimates the major changes taking place in the conditions and nature of labor in the non-productive field as a result of the new scientific and technological revolution.

A second definition emphasizes hired labor and does not link the class attributes of the working class with the process of participating in the production of surplus value. It also incorporates the hired laborers working in non-productive fields into the working class. For example, in the special works on the proletariat of the FRG, GDR scholars included into the proletariat "all the hired laborers, whether they work in the field of material production or the fields of circulation, administration, and service." They defined the working class as "proletarians who do not possess the means of production but have to sell their labor to capital owners to be exploited in the process of capitalist reproduction." This is a definition in a so-called broad sense.

A third definition emphasizes the role of the working class in the organization of social labor to be merely an executive function. It believes that the second definition is basically correct but needs to be more specific, particularly in view of the emergence of the current tendency of mixing up proletarians and hired personnel. This is because the category of hired personnel includes various social classes and cliques.

Therefore, judged by the relationship of the means of production and other criteria, hired laborers cannot possibly belong to a single class. This definition stresses the role of the working class in the organization of social labor to be merely an executive function. It defines the working class as "the proletariat, referring to the class of hired laborers who do not possess the means of production and who have to sell their labor to make a living to be exploited by capitalism and exercise their functions as mere executives in the fields of production, circulation, office work, and the service trades."

Among the questions under discussion are two important ones: First, the class attributes of hired mental laborers; and second, the class attributes of hired laborers working in non-material productive departments.

There are several different opinions about the class attributes of hired mental laborers. Some people classify most of the hired intellectuals, primarily engineers and technicians, into the ranks of the working class. For example, Soviet scholar Lumyenkav [Lu Mian Cai Fu 7627 4884 6846 1133] believes that "just like workers, engineers and technicians generally do not have ownership of the means of production. According to this basic characteristic, they should be included into the working class." Some scholars include all the hired engineers, technicians, scientific and technological personnel, teachers, doctors, writers, artists, and so on into the proletariat. For instance, Lamuzesi [La Mu Ze Si 2139 1191 3419 2448] pointed out: "Today, in addition to physical laborers, it is completely justifiable to include mental laborers, primarily engineers and technicians and scientific and technological personnel, into the category of the proletariat in factories. Despite their employment terms which often put them into privileged positions, they still participate in the creation of surplus value. In other words, they are still exploited by the owners of the means of production."

Some other scholars, like the French scholar Marley [Ma Lai 7456 5490], include almost all the hired mental laborers into the working class. He regards all the highly skilled workers in technologically advanced production departments, engineers, technicians, and so on as "the new working class." He believes that modern capitalism is in a stage in which scientific and technological knowledge is the decisive "productive force." Therefore, the "new working class" has replaced the "old" working class and become the outstanding vanguard of revolutionary and socialist movements."

There are also some people who only include some intellectuals into the working class and believe that the majority of them are a component of the intermediate strata of capitalist society. French scholar Mar [Ma Er 7456 1422] holds that "while some intellectuals belong to the working class, most of them belong to the intermediate strata and a few of them belong to the class of capitalists."

Some Western scholars only count hired physical laborers as the working class regardless of the changes in specific historical conditions, and exclude all the hired mental laborers from the working class and classify them as the "intermediate class," the "middle class," or "the new middle class." They talk glibly about this "middle class" including "almost the whole Western society," and "the vanishing working class," and so on. Many people believe that these terms are not scientific, as they include not only the intermediate strata but also the working class and a considerable part of the capitalist class into the "middle class." Some even include all the "white-collar personnel" into this "new middle class." Therefore, the "middle class" they mention is in fact a mixture of all classes and not a single class. Members of any class should have common class interests, but the members of this "middle class" do not have class interests in common.

Regarding the class attributes of hired laborers working in non-material productive fields, in the 1960's, some communist parties in developed capitalist countries believed that as hired laborers working in non-material productive fields (excluding transportation and post and telecommunications industries) do not create any surplus value, they should not be regarded as members of the working class. In the 1970's, some parties changed their viewpoints. In their party documents, they have looked upon the ordinary office clerks, hired laborers in service trades, and the ordinary state and city government functionaries (not including senior officials) as members of the working class.

In 1967, the Soviet magazine MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA once initiated a discussion on service trades. An article carried in the Soviet encyclopedia published in 1974 points out that more and more mental laborers are being exploited by capitalism and that they use their labor to create surplus value and are included into the general scope of workers. This has actually affirmed that, like departments producing materials, service trades can also create value and surplus value. In this regard, some scholars explicitly point out: "Just like proletarians of industry, agriculture, commerce, and office work, the proletarians working in service trades also objectively exist. The hired teachers, doctors, and laborers working in various service trades are different from the hired engineers, technicians, and scientific and technological personnel only in the lack of a substantial nature of

their labor. The difference between physical laborers and them is similar to the difference between engineers and technicians and scientific and technological personnel. The common point of the two should not be covered up, as both of them are creators of surplus value and targets of exploitation. Based on this characteristic, we must count employees of the mass media and some other employed professionals as proletarians working in service trades."

/12232

CSO: 4006/729

5 March 1986

ECONOMIC PLANNING

LIAOWANG ON DIVERTING WATER FROM SOUTH TO NORTH

HK120938 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 4, 27 Jan 86 pp 16-17

[Article by LIAOWANG reporter Li Shiyi [2621 0013 5030]: "A Strategic Plan for Diverting Water from the South to the North of China"]

[Text] The surging waters of the Huang He flow across the dry and semidry regions in northwestern and northern China. The splendid Chinese civilization with a history of several thousand years has always been linked to this golden river. Now, with the simultaneous growth of the population and the economy, the waters of the Huang He have found it more and more difficult to make ends meet. Does China have any good plan to solve this problem?

Some time ago, China's water conservancy experts made an on-the-spot investigation on the feasibility of diverting water from the tributaries of the upper reaches of the Chang Jiang to the Huang He. At a report meeting held by the Chinese Land Economics Society, the experts disclosed their research achievements, which were called the "Plan for Diverting Water From the South to the North in Western China." People hold that it is a great strategic plan for developing northwestern China and for rejuvenating northern China and that it should be studied with great interest.

The Huang He Is Short of Water for Demand Exceeds Supply

In water resources, China is rich in the south but poor in the north. The annual discharge of the Huang He is 56 billion cubic meters, one-seventeenth that of the Chang Jiang. If we calculate the annual discharge on a per capita basis, the Huang He is about one-fourth of the Chang Jiang; if we calculate it on a per mu cultivated land basis, the Huang He is about one-ninth of the Chang Jiang. The shortage of water resources in the Huang He is an accomplished fact.

People annually use 27.1 billion cubic meters of water from the Huang He to develop industrial and agricultural production, accounting for some 48 percent of the annual discharge of the Huang He. Such a high use rate of a large river's water resources is rare even in other parts of the world.

With 1.6 billion tons of silt washed away by the water annually, the Huang He is also one of the large rivers in the world with the highest sand content.

Due to the insufficient water flow, several hundred million tons of silt is deposited in the riverbed, bringing about a gradual rise of the riverbed on the lower reaches year after year. In some sections the riverbed rises about 1 meter every 10 years. The riverbed in some places is more than 10 meters higher than the ground, so that it looks like a "suspension river." If the two or three hundred million cubic meters of water needed for washing the silt into the sea is also taken into account, there would be little water left in the Huang He.

These are only rough calculations. Judging from the hydrological data in the past several decades, the water of the Huang He is more often low than high. For 18 years its annual discharge of water was less than 40 billion cubic meters, with only 20.1 billion cubic meters registered in 1960. For 16 years it was more than 60 billion cubic meters. The highest annual discharge of water reached 86.1 billion cubic meters in 1964. That is to say, the fluctuations of the discharge vary between 100 to 400 percent. In the dry season, increased demand for water often leads to a number of river sections drying up.

The situation characterized by demand for the Huang He water exceeding supply will be more serious in the future. Some experts estimate that by the end of this century the water for industrial and agricultural use in the Huang He valley will increase to 37.5-69.6 billion cubic meters annually. The former figure was projected by the Huang He Water Conservancy Commission as necessary to achieve a balance between supply and demands, while the latter was supposed to be that needed by various provinces, municipalities, and autonomous regions. Both figures show people's great expectations for the Huang He water. Such a great demand can hardly be sustained by the Huang He.

Why Is it Necessary to Divert Water from the Upper Reaches of the Chang Jiang?

The Huang He is short of water while the Chang Jiang has enough water and more to spare. Diverting water from the Chang Jiang to the Huang He has been something yearned for by the people day and night over the years. China's water conservancy experts have put forward three plans for diverting water from the south to the north:

Diverting water in eastern China: The plan involves drawing water from Jiangdu, which is situated in the lower reaches of the Chang Jiang and delivering it to Hubei Province and Tianjin City through the Beijing-Hangzhou grand canal, the Nansi Hu, and the Dongping Hu, and across the Huang He. It is now being put into effect.

Diverting water in central China: The plan involves drawing water from Sanxia, which is situated in the middle reaches of the Chang Jiang, and delivering it to Hebei Province and Beijing through the Dan Jiang in Hubei Province and Fangcheng County in Henan Province and across the Huang He near Zhangzhou.

Diverting water in western China: The plan involves drawing water from the Tongtian He in Qinghai Province, which is situated in the upper reaches of the Chang Jiang, and delivering it to northwestern and north China through the Bayan Har Shan and the Huang He.

With their own advantages, disadvantages, and roles, the three plans cannot replace one another. The plans for eastern and western China each have their own merits for solving the problem of water shortage in northern China, but they cannot solve the problem of water shortage in northwestern China.

Northwestern China has a vast territory and a sparse population. Rich in natural resources, it is dry and has little rainfall. The annual rainfall is less than 400 mm and in some areas it is only 100-200 mm or even as little as several dozen mm. But the evaporation is several dozen times higher than the rainfall. To switch its large population and the focus of its economic development from the southeast to the northwest, China should solve the problem of water supply in the northwest. Otherwise, the plan will simply become castles in the air. For instance, the Qaidam Basin in western Qinghai, which is situated at the source of the Huang He, is rich in oil, gas, and many mineral resources. It also has 20 million mu of sandy or uncultivated land that can be developed. As soon as there is a water supply, the Gobi Desert here will be turned into an oasis and a prosperous industrial and agricultural region. For this reason, when discussing the strategy for northwestern China's socioeconomic development in recent years, all people have been very concerned about the plan for drawing water from the south to the north in western China.

The Three Diversion Channels Are Capable of Delivering 20 Billion Cubic Meters of Water

The Huang He rises at the northern foot of the Bayan Har Shan in the eastern Qinghai-Xizang Plateau. The Chang Jiang is to its south, separated by the mountains which are high in the north and low in the south. The riverbeds of the tributaries of the Huang He are generally 300-500 meters higher than those of the tributaries of the Chang Jiang. To divert water from the Chang Jiang to the Huang He, it is necessary to build high dams among the snowy mountains and the gorges, to pump the water up the mountains, and to cut a long tunnel across the Bayan Har Shan, which is a magnificent project. This is a prominent feature of the project for diverting water from the south to the north in western China. The Chinese experts have on numerous occasions surveyed more than 30 likely places for building the key water control dam and more than 10 river sectors for diverting water in the upper reaches of the Chang Jiang and Huang He, and studied the feasibility and scope of the diversion works. Their understanding is that the geological and topographic conditions here are fairly good for the construction of key water control project and inversion channels because there is little likelihood of a strong earthquake. From more than 20 diversion plans, they selected 3 diversion channels for consideration by the state.

First, channel 10 billion cubic meters of water from Lianye in the upper reaches of the Tongtian He into the Huang He. The biggest dam in this project will be 205 meters high. This will involve a pumping range of 495 meters and an annual electricity consumption of 16.8 billion kilowatt-hours. It will be necessary to cut a 29-km-long tunnel and a 100-km-long diversion channel.

Second, channel 5 billion cubic meters of water from Renqingling in the upper reaches of the Yalong Jiang into the Huang He. The biggest dam in this project will be 302 meters high. This will involve a pumping range of 385 meters

and an annual electric consumption of 6.6 billion kilowatt-hours. It will be necessary to cut a 19-km-long tunnel and a 73-km-long diversion channel.

Third, channel 5 billion cubic meters of water from Xicerga in the upper reaches of the Dadu He into the Huang He. The biggest dam in this project will be 285 meters. This will involve a pumping range of 315 meters and an annual electric consumption of 5.4 billion kilowatt-hours. It will be necessary to cut a 24-km-long tunnel and a 24-km-long diversion channel.

To channel the 20 billion cubic meters of water from the Tongtian He, Yalong Jiang, and Dadu He in the upper reaches of the Chang Jiang through the three diversion channels, it will be necessary to move 160-240 million cubic meters of stone and earth and to pour 8-17 million cubic meters of concrete. The total investment for the projects is estimated at 18.7 billion yuan, with an average investment of 0.94 yuan for diverting 1 cubic meter of water.

The experts also put forward a "self-flowing plan." This involves diverting water from the Lianye reservoir in the upper reaches of the Tongtian He toward the southwest and pouring it into Za Qu in the upper reaches of the Yalong Jiang. The water is then diverted from the Renqingling reservoir in the upper reaches of the Yalong Jiang through a 30-km-long tunnel. In this way, 15 billion cubic meters of water from the Chang Jiang will be able to flow into the Huang He. To fulfill this plan, it will be necessary to build a 401-meter-high dam and a 397 km-long diversion channel. This involves 276 million cubic meters of stone or earth work and 47.65 million cubic meters of concrete. The strong point of this plan is that water need not be pumped up, but it involves a tremendous amount of work.

To Kill Three Vultures in Northern China with an Arrow from the Chang Jiang

"A waterfront pavillion gets the moonlight first"; the plan for diverting water from the south to the north in western China will first benefit Qinghai, Gansu, Ningxia, Shaanxi, Shanxi, and Nei Monggol. If the 20 billion cubic meters of water is used to develop agriculture in northwestern China, the irrigated area there will increase by 100 percent and the irrigated farmland by 60 million mu. This will enable grain production to be raised by 20 billion jin. Seven terraced hydroelectric power stations are being built in the middle and upper reaches of the Huang He. If this water is used to increase electric energy production, the energy output will increase by 14.4 billion kilowatt-hours annually. In the long-term future, 30 terraced hydroelectric power stations will be built along the Huang He. When they are completed, the 20 billion cubic meters of water will increase generated electricity production by 105.7 billion kilowatt-hours.

The 20 billion cubic meters of clear water from the Chang Jiang will greatly increase the capacity of the Huang He to remove silt. At that time, the phrase, "one cannot wash oneself clean even if one jumps into the Huang He," should also be changed. With the various key water control projects in the Huang He jointly giving play to their regulatory functions, the lower reaches of the Huang He will be free from floods and waterlogging and a long period of prosperity will be ushered in.

Diverting water from the Chang Jiang to the Huang He at its source will also be helpful to the treatment of pollution and the development of inland navigation.

Diverting water in the upper reaches of a river has another advantage. With the region being sparsely populated and the land there practically worthless, there will be no such troublesome problems as moving out people and flooding farmland. This is something the other two plans lack.

Naturally, there are both advantages and disadvantages in everything. In order to divert water in the upper reaches of the river, we shall have to build high dams and to cut long tunnels. All the construction projects should be carried out in places high above sea level, where there is insufficient oxygen and the land is frozen. The natural conditions make it inconvenient to carry out construction projects. Moreover, numerous unknown scientific and technological factors still need to be explored.

Will diverting water from the upper reaches of the Chang Jiang affect the discharge of the Chang Jiang as a whole? Some experts estimate that the 20 billion cubic meters of water diverted from the upper reaches of the Chang Jiang accounts for only 5 percent of the discharge of the Chang Jiang of Yichang, but this will increase the discharge of the Huang He at Lanzhou by 60 percent. Taking from the rich to help the poor can do more good than harm.

The Chang Jiang is very rich in water resources and the Huang He is the life-line of the arid region in northern China. What situation will prevail in China when the two giant rivers are joined together?

/12232

CSO: 4006/729

ECONOMIC PLANNING

HENAN RADIO ON FORMULATION OF DEVELOPMENT STRATEGY

HK070525 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 3 Feb 86

[Commentary: "Formulate Well Our Province's Strategy of Economic and Social Development"]

[Excerpts] Since the 12th Party Congress, the whole province has seriously studied and gone into the problem of the strategy of economic and social development. After hard work over the past 2 years, the provincial Economic and Social Development Strategy Planning Guidance Committee has pooled the wisdom of everyone and has an initial view on the strategy of development in the whole province. In conjunction with the realities of their own prefectures and departments, all prefectures and cities and all departments at the provincial level have put forward their own plans for the strategy of development. Gratifying progress and marked achievements have been made in the work of studying the strategy throughout the province. This is very encouraging.

However, we must also see that study and formulation of the long-term strategy of development is a new subject for us. There are many problems of which we should deepen our understanding in the course of practice. The initial plan already worked out must be constantly revised and perfected. For example, in accordance with the great national strategic target and proceeding from Henan Province's situation, when we practically and realistically work out our province's strategic target and the important steps to achieve this target, we must use the method of linking qualitative analysis with quantitative analysis, and completely expound and prove all the advantages and disadvantages of the economic and social development in our province. We must not only consider economic growth but also lay stress on the raising of economic results, modernization of the national economy, and improvement of people's livelihood. At the same time, to achieve this target, we must do it in two steps: Before 1990, we must lay stress on first investing in the industries the investment in which is small, whose period of development is short, which produce quick results, and the level whose profits is large, and on the items which promote the national economy as a whole, so as to accumulate more capital. In the second half of the strategy plan, when our capital is relatively ample, we must develop more capital and technology intensive industries and products.

In addition, in accordance with our province's current economic and technological foundation and with the essential factors of economic growth, when we

determine the focal point of our province's strategy and initial industries, there are at least four conditions: 1) We must have abundant resources. 2) We must have stable and broad markets. 3) The industries are able to bring along the development of other departments and trades. 4) We can accumulate more capital for our country and localities.

We must mobilize all people throughout the province, responsible comrades of all prefectures, cities, and departments, comrades engaged in practical work, economic theory workers, and experts and scholars in all fields, pool the wisdom, absorb all useful ideas, and study in depth, so that we can formulate as soon as possible an overall plan for a strategy which conforms to Henan province's situation and which can reflect the tendencies of economic, social, scientific, and technological development, and so that we can provide a scientific basis for the provincial CPC Committee and provincial government to work out police decisions.

/12232

CSO: 4006/729

ECONOMIC PLANNING

LIAONING PROVINCIAL ECONOMIC WORK CONFERENCE ENDS

SK060925 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 5 Feb 86

[Text] From 31 January to 4 February, the provincial government held a provincial economic work conference in Shenyang.

During the conference, the participants conscientiously studied the relevant speeches of the central leading comrades, relayed and studied the guidelines of the National Economic Work Conference and the 2nd Plenary Session of the 6th Provincial CPC Committee, summed up and exchanged typical experiences, studied ways to improve the ideological and political work of the enterprise workers and to fulfill this year's economic tasks and measures, and commended 23 6-goods enterprises and 52 advanced enterprises that have done a good job in creating achievements in the 6 aspects.

Attending the conference were responsible comrades of the relevant provincial-level departments and of various cities in charge of economic work, and responsible comrades of 100 large and medium-sized enterprises. Chen Suzhi, member of the Standing Committee of the provincial CPC Committee, addressed the conference. Vice Governor Bai Lichen gave a summing-up speech at the conference.

Vice Governor Bai Lichen pointed out: This year, we should continue to give first priority to economic structural reform; consolidate, digest, supplement, and improve this reform with strenuous efforts; continue to vitalize large and medium-sized enterprises, and comprehensively implement a series of policies and stipulations on expanding the decisionmaking power of enterprises given by the State Council and the provincial government. No departments should set restrictions or restrict the power of enterprises. It is necessary to consolidate and sort out the existing administrative companies; exert efforts to step up macroeconomic control; strive to explore a new way to enable enterprises to be managed strictly but not over-rigidly, and to be lively but not disorderly; realistically grasp enterprise management; and actively develop the lateral economy.

Vice Governor Bai Lichen pointed out: In industrial production, we should continue to maintain a sustained, steady, and coordinated development. Developing industry at a super-high rate is not good. But this does not mean that industry should be developed at the lowest rate of 8 percent and strive to reach 10 percent if possible on the premise of raising economic results.

In his speech, Vice Governor Bai Lichen also touched on the issues of accelerating the pace of technical transformation of enterprises, raising the level of enterprises in exports and creating foreign exchange, and doing a good job in the ideological and political work among the staff members and workers of enterprises.

ECONOMIC PLANNING

BRIEFS

WELCOMING AUDITING WORK--Auditing organs are authoritative organizations which carry out auditing and supervisory work on behalf of the state. They function as economic supervisors, economic judicial organizations, society's judges, and organizations that assess, administer, and control units. Over the past 2 years, the province's auditing organs have played an active role in safeguarding financial discipline, correcting unhealthy tendencies, and improving economic results. They have promoted smooth progress in economic structural reform. Thus various units, and departments should support and welcome this work. However, some comrades think that it is only a task meant to find trouble. They do not give enough support or even do not welcome the work. This is an erroneous attitude. It is hoped that the governments at all levels will attach great importance to and welcome the auditing work. All units and departments should also welcome the work and help the auditing organs in their work. [Station short commentary: "Support and Welcome Auditing Work"]
[Text] [Xian Shaanxi Provincial Service in Mandarin 2300 GMT 3 Feb 86 HK]
/12232

CSO: 4006/729

AGGREGATE ECONOMIC DATA

TIANJIN'S RURAL ECONOMIC DEVELOPMENT IN PAST 5 YEARS

SK130348 Tianjin TIANJIN RIBAO in Chinese 27 Jan 86 p 1

[Text] In 1985 our municipality witnessed an sustained and overall development in its rural economy. Compared with 1980, the total social product of the municipality's rural areas increased by 2 times; the total agricultural output value and the average per-capita net income of peasants increased by 1.2 times respectively; and the commodity rate in the rural economy increased from 68 percent to 73 percent. This indicates that the rural economy has begun embarking on a path of developing the commodity economy in a planned manner.

Last year, one of the major characteristics of our municipal rural economy was that the levels of specialization and large-scale commodity production markedly raised and the production setup as well as the structure of labor force obviously changed. In 1985, one labor force engaged in the planting industry accounted for 55 percent of the total labor force, a decline of 22 percent from 1980. In the past 5 years more than 200,000 laborers gave up planting industry and engaged in the secondary and tertiary industries. So far, the municipality as a whole has 820,000 laborers who are engaging in the secondary and tertiary industries in the rural areas, accounting for 45 percent of the total rural labor force.

The changes in the rural production setup have further met the needs of the urban and rural people and promoted the development of the commodity economy. In line with the principle of "serving the cities and making the people wealthy," the suburban districts and counties have readjusted the rural production setup and initially formed a rural economic structure which makes the suburban areas serve the large cities. Last year, under the situation in which the grain sowing acreage dropped by a large margin from 1984, we still set all-time records in the total output and per-unit area yield. The output value of forestry, animal husbandry, sideline occupations, and fishery increased at varying rates. The output of some major nonstaple foods, including eggs, mil, fish, melons and fruits, exceeded the all-time records. Viewing from the readjustment of the rural production setup, the proportion of the primary industry has dropped and that of the secondary and tertiary industries increased. Township enterprises have gradually become the important pillars of the rural economy. Last year the number of our municipality's township-level and village-level industrial enterprises reached some 8,600, showing an increase of 1.3 times over 1980. The total output value of the township enterprises is expected to reach 4.3 billion yuan, accounting for 71 percent of the total social product of the

municipality's rural areas. In addition, a new tertiary industrial force has suddenly come to the fore and rapidly developed. So far, there are nearly 40,000 collective and individual commercial, catering, and service units in the rural areas. The regular individual commercial households have become an indispensable supplement to the state commercial units. According to statistics, the output value of the rural tertiary industry of the municipality is expected to increase by 3.4 times over 1980.

/12232

CSO: 4006/729

AGGREGATE ECONOMIC DATA

LIAONING PUBLISHES COMMUNIQUE ON ECONOMIC, SOCIAL DEVELOPMENT

SK080751 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 6 Feb 86

[Text] The Liaoning Provincial Statistical Bureau published a communeque on the national economy and social development in 1985.

In 1985 the province realized 80 billion yuan in total industrial and agricultural output value, a 13.4-percent increase over the 1984 figure. The people of various nationalities throughout the province, under the leadership of the provincial CPC Committee and the provincial People's Government, earnestly implemented the guideline on enforcing the policy of opening to the outside world in order to enliven the domestic economy, overcame the raye natural disaster by upholding the principle of putting the transformation drive in the first place, and created a favorable situation in which the national economy achieved sustained, stable, and harmonious development. The province has successfully fulfilled, in an all round way, the major targets set forth by the Sixth 5-Year Plan. On the basis of increasing output and achieving development, the province realized an increase in financial revenues and made its markets prosperous with brisk sales. The province's annual gross national product reached 49 billion yuan, a 13.4-percent increase over the 1984 figure.

In 1985 the province realized more than 65.7 billion yuan in total industrial output value, a 17.2-percent increase over the 1984 figure. The province experienced a 31.6-percent decrease in the output of grain and cotton over the 1984 figure because of the readjustment of sowed acreage and the serious natural disaster. The province, however, showed a 23.3-percent increase in the output of peanuts over the 1984 figure. There were 100 industrial products that won the national prizes for fine quality.

Along with the development of industrial and agricultural production, markets throughout the province enjoyed brisk sales and purchases. The state commercial firms and the supply and marketing cooperatives spent more than 13.2 billion yuan on purchasing commodities, a 6.8-percent increase over the 1984 figure. The province's total retail sales reached 23.1 billion yuan, a 22.2-percent increase over the 1984 figure.

On the basis of increasing output and achieving development, the province, in 1985, conducted [word indistinct] in wage systems; delegated the right to fix the prices of nonstaple foodstuffs such as meat, poultry, eggs, aquatic products, and vegetables; and gave adequate subsidies to urban residents, thus bringing about an increase, to varying degrees, in the income standard of both urban and rural people.

AGGREGATE ECONOMIC DATA

BRIEFS

ANHUI INDUSTRIAL-AGRICULTURAL OUTPUT--Anhui's 1985 total industrial and agricultural output reached 40.8 billion yuan, an increase of 20.1 percent over 1984. The total output value of agriculture in 1985 was 18.6 billion yuan, an increase of 20.3 percent over 1984. According to a sample survey, average per capita net income of peasants in the province reached 356 yuan in 1985, an increase of 13.6 percent over 1984. The total output value of industry in 1985 was 22.2 billion yuan, an increase of 20.5 percent over 1984. The province's 1985 financial revenue passed 3 billion yuan in 1985, an increase of 23.6 percent over 1984. [Summary] [Hefei Anhui Provincial Service in Mandarin 1100 GMT 2 Feb 86 OW] /12232

HEILONGJIANG OVERFULFILLS MOST TARGETS--Our province achieved significant progress in reform of the economic structure in 1985. A good situation of vigorous development appeared in the national economy. According to statistics of the provincial Statistical Bureau, the total social product showed a 7.9-percent increase, industrial and agricultural output value a 7.3-percent increase, and national income a 5.4-percent increase over 1984. Most of the major targets as set forth in the Sixth 5-Year Plan were prefulfilled or overfulfilled. [Text] [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 8 Feb 86 SK] /12232

GANSU'S TOWNSHIP OUTPUT VALUE--In 1985, the province's town and township enterprises achieved a gross output value of 1.69 billion yuan, an increase of 115 percent compared to 1984. The gross output value of town and township enterprises increased by 20 million yuan in 13 counties. The number of enterprises run by households increased from over 18,000 in 1984 to more than 60,000 in 1985, accounting for more than 60 percent of the province's total number of town and township enterprises. Through various channels, the province imported over 2,400 qualified personnel and trained some 9,000 people. [Summary] [Lanzou Gansu Provincial Service in Mandarin 1100 GMT 9 Feb 86 HK] /12232

CSO: 4006/729

ECONOMIC MANAGEMENT

COOPERATION DRIVE BREAKS OLD TRADE BARRIERS

OW130840 Beijing XINHUA in English 0709 GMT 13 Feb 86

[Text] Beijing, 13 February (XINHUA) -- The long-standing obstacles hampering China's economic development are being further removed as the drive towards more co-operation between firms shifts into second gear, CHINA DAILY reported today.

The government is formulating policies and drafting regulations to promote a "horizontal co-operation" that cuts through the administrative barriers and encourages businesses to work out ways of helping each other.

This new thinking opposes the idea of "vertical control" that prevailed under the old central planning system, when most manufactured goods could be sold only in the area where they were made and firms and factories could deal only with the government departments to which they belonged.

A national conference will be held shortly in Beijing to draw up a strategy for solving any problems that may arise under the new system, Sun Shuyi, a director of the state economic commission, told CHINA DAILY.

According to Sun, the movement is gaining momentum as a result of the fundamental shift toward giving businesses more independence by freeing them from highly centralized control.

Such co-operation now exists not only between enterprises in different regions and under different government departments, but also between urban and rural firms, industrial, commercial and foreign traders and defense and civilian industries.

Nationwide co-operation in production, technology, personnel, materials and funds and pooled efforts in research and marketing, are vitally important for developing the market economy and setting up economic networks, the director said.

The change in direction began in 1980 with encouragement from the state council, which urged that artificial barriers to domestic trade be broken down to free the country from the "closed door" policy restrictions that had evolved over the years.

Sun said that more than 35,000 inter-province economic and technical co-operation contracts had been signed so far, ranging from one-off single project deals to long-term arrangements for co-ordinated production.

All these deals were entirely voluntary and made on mutually beneficial terms, Sun said. Each arrangement was made on the understanding that each partner's ownership rights, responsibilities to higher authorities and methods of paying taxes would not be changed.

Wang Lemei, a bureau chief at the State Economic Commission, told CHINA DAILY that the new approach had also resulted in the formation of more than 10 new large enterprise groups producing vehicles, iron and steel products, electrical goods and chemicals.

Sun Shuyi said that more and more Chinese enterprises had come to realize that economic and technical co-operation was necessary for keeping up with market changes and for speeding technological progress. Co-operation could unite the strong points of many businesses to bring the best economic and social results.

The "horizontal" policy has proved successful in many ways, co-ordinating mass production of brand-name goods, promoting the exchange of technology and economic information, bringing together processing industries and raw material suppliers, and helping the country's industries in remote land-locked provinces and rural areas to make industrial progress for forging economic links with more developed provinces and coastal cities.

/12929

CS0: 4020/203

ECONOMIC MANAGEMENT

SCIENTIFIC RESEARCH, PRODUCTION WORK TOGETHER

OW131206 Beijing XINHUA in English 1137 GMT 13 Feb 86

[Text] Beijing, 13 February (XINHUA) -- China's bustling market in new technology last year benefited small production firms all over the country.

Researchers have been told to work closer with industry as part of the country's efforts to reform its science research system. Research findings are now being applied practically to boost the economy.

Last May, China's first national technical trade fair was held in Beijing. More than 20,000 research findings were offered for sale to industry.

Many other local authorities followed suit by organizing technology fairs or opening technology markets or shops. At a fair held in Hangzhou, capital of East China's Zhejiang Province, more than 3,200 research findings were transferred to production units.

Other agreements at the fair, involving technological consultation, contracting for key projects, technical bidding or providing technical services, were reached between research institutes and small firms and rural enterprises.

China now has more than six million rural enterprises, which badly need new technology to expand production and improve product quality.

At a fair last spring, the Beijing food research institute signed contracts for transferring technology for processing corn and sweet potatoes with 110 customers. It earned transfer fees of 2.7 million yuan.

Figures released recently by the state science and technology commission show that overall, research institutes earned 1.77 billion yuan from transferring technology to small and rural enterprises last year.

Incomplete statistics show that China has so far established 1,100 scientific development exchange centers and more than 3,000 technical consulting service organizations.

Last March, the Communist Party Central Committee said it aimed to reform the science research system to make it better-suited to serving the national economy.

The reform involves changing the method of financing scientific research, opening technology trade fairs, increasing the technology development ability of enterprises and reforming the scientific management system.

The Central Committee stipulated that operating funds for institutes working on technological development would be gradually withdrawn, making them become financial self-supporting. Those working on basic research would have to apply for grants from the science foundation, while the state continued to guarantee funding only for their operating expenses.

Last year, about 1,900 institutes for technological development, accounting for 40 percent of such institutes in the country, signed technical contracts, and 360 institutes became financially self-supporting.

The state science and technology commission said institutes above the prefectural level last year earned a combined income of 900 million yuan through transferring their research findings or providing technical services -- equivalent to about 47 percent of their operating costs.

By the end of 1985, China had set up 9,768 research-production co-operatives across the country, nearly four times the figure in 1984. Institutes and enterprises joined hands in developing new products or new industries.

For instance, the Shanghai branch of the Chinese Academy of Sciences has established more than 60 research-production co-operatives with rural enterprises.

The branch's silicate research institute has applied eight research findings and seven items of technology to the Deqing electronic equipment factory in Zhejiang Province for the production of niobium-lithium crystals. The co-operation last year helped the factory produce an output value of five million yuan and a profit of one million yuan. The factory now produces two-thirds of such crystals sold in China.

Scientific reform has also mobilized the initiative of the scientific workers, and promoted the flow of scientific personnel between cities and the countryside. County and township enterprises earned a net increase of 1,356 scientific workers last year.

The state science and technology commission said that last year, more than 10,000 major research findings won official technical approval and received awards. Of these, 185 research findings which won national invention awards produced economic returns of 4.4 billion yuan.

/12929

CSO: 4020/203

ECONOMIC MANAGEMENT

STATE COMMISSION PRAISES RESEARCH SALES

OW131641 Beijing XINHUA in English 1626 GMT 13 Feb 86

[Text] Beijing, 13 February (XINHUA) -- The policy of allowing paid transfers of research results has proved to be a success, the state science and technology commission said today.

Research institutes have begun selling their findings under the new policy, enabling them to contribute further to the country's development, the commission reported.

Such sales amounted to 1.77 billion yuan (about 500 million U.S. dollars) last year; most buyers were middle and small enterprises in cities, and rural factories.

It used to be difficult for these units to get help from scientists in the past, when research tasks were assigned and findings controlled exclusively by the government.

In 1985 over 40 percent of the research institutes operating under city and higher authorities contracted items of research, the commission reported.

The total earnings came to 900 million yuan, equivalent to 46 percent of the funds the state provided to the research institutes.

By the end of last year, the commission said, the number of cooperative units combining research with production has snowballed to 9,700, nearly five times the 1984 figure.

These units were set up by factories and research institutes, including 778 research units operating under ministries and commissions under the state council.

/12929
CSO: 4020/203

ECONOMIC MANAGEMENT

SCIENCE ASSOCIATION ON PROMOTION OF LOCAL ECONOMY

OW171626 Beijing XINHUA in English 1514 GMT 17 Feb 86

[Text] Beijing, 17 February (XINHUA) -- The China Association for Science and Technology urged its societies across the country to play a greater role in promoting local economy and popularize suitable technology to rural enterprises.

The call was made at the association's standing committee meeting here today.

As a mass scientific organization, the China Association for Science and Technology has a total of 138 societies nationwide, with a membership of more than 1.5 million.

Zhou Peiyuan, president of the association, said that there are now over 60,00 specialized technology research groups in the countryside. They should promote techniques for crop cultivation, fish breeding and animal raising as well as the application of technical know-how to the rural areas and township enterprises, he said.

During the seventh five-year plan period (1986-1990), the association will help 200 million rural youths and cadres to master one item of technology suited to local conditions; at the same time, it will, in cooperation of the civil affairs departments, assist 15 underdeveloped counties in developing commodity production.

The association in 1986 will complete the construction of 14 scientific activity centers for youngsters with the financial help from the U.N. Children's Fund and conduct scientific activities among the children in the fields of computer science and biotechnology.

This summer, it will sponsor the third national creation and invention contest for youngsters in Lanzhou, capital of northwest China's Gansu Province.

In addition, the association will sponsor lectures on new technology, modern management and new industries for scientific work.

More than 30 international academic symposiums are planned in Beijing to expand exchanges with scientific organizations in other countries, especially

the international scientific union and the world engineers' union. Chinese technicians will be sent to foreign enterprises to learn production techniques and management expertise.

According to the standing committee meeting, the China Science and Technology Association will convene its third national congress this year to revise its constitution and reshuffle its leading body, making the association's work more effectively serve the country's seventh five-year plan.

/12929

CSO: 4020/203

ECONOMIC MANAGEMENT

BRIEFS

INDUSTRIAL DEVELOPMENT INVESTIGATED--Over 1 and 1/2 pages, ZHONGGUO JIXIE BAO [CHINA MACHINE BUILDING JOURNAL] carried an article by Comrade Ni Zhifu on investigation and study of the issue of basic technology, materials, equipment, and parts in the machine-building and electronics industries. The article set out six relationships between basic and other links, which should be handled well in industrial development. 1) To raise the level of finished products, it is necessary to proceed from the enhancement of the level of basic links; 2) to carry out technological reform, it is necessary to emphasize the strengthening of basic links; 3) to import and absorb advanced foreign technology, it is necessary to grasp the work of solving basic link problems well; 4) to strengthen those links, it is necessary to emphasize specialization, cooperation, and joint activities; 5) to develop new industries, it is necessary to start with basics; and 6) to promote modernized management, it is imperative to strengthen basic work. [Report in 13 February Press Review on Ni Zhifu's article] [Text] [Beijing Domestic Service in Mandarin 2230 GMT 12 Feb 86 OW] /12913

LATERAL ECONOMIC TIES--Lateral economic ties, which have developed in recent years, have become an important part of, and given new vitality to, the province's economic development. In 1985, lateral economic ties in the province expanded more rapidly than in previous years, achieving more remarkable results than before. The province signed contracts with 25 provinces, autonomous regions, and cities on more than 1,400 cooperative projects, and brought in some 350 million yuan. [words indistinct] The province's output value and achieved profits and taxes in these economic cooperation projects increased nearly 100 percent over 1984. Under the situation in which the state tightened money supply, in 1985 the province brought in funds from other provinces to promote exploitation of natural resources. Dayong city brought in some 32 million yuan to speed up the development of (Wulingyuan) tourism area. Loudi Prefecture brought in some 35 million yuan to develop production of building materials and pig iron. Bringing in advanced technology and management experience has given vitality to some enterprises in the province. The Jishou leather products factory stopped production in 1984 due to poor management. After consolidation and bringing in technology and management experience from Shanghai, the factory survived and the profits and taxes achieved by it in 1985 amounted to some 350,000 yuan. [Text] [Changsha Hunan Provincial Service in Mandarin 1100 GMT 3 Feb 86 HK] /12913

PRICE MONITORING STATIONS--Beijing, 5 February (XINHUA)--China has set up more than 4,000 price monitoring stations in towns and cities, according to the overseas edition of today's "PEOPLE'S DAILY." The newspaper reported that 20,000 volunteer price monitoring workers have played an active role in protecting the interests of consumers in many of China's larger cities including Shenyang, Jilin, Chongqing, Guangzhou and Wuhan. Spring festival or lunar new year, which falls on 9 February, is the busiest commercial season of the year. The state price control administration has put out a nationwide call for extra vigilance among price control workers and expansion of the monitoring system. [Text] [Beijing XINHUA in English 1303 GMT 5 Feb 86 OW]

/12929

CS0: 4020/203

FINANCE AND BANKING

JINGJI CANKAO CITED ON ISSUING INTERNATIONAL BONDS

HK290000 Beijing ZHONGGUO XINWEN SHE in Chinese 0800 GMT 25 Nov 85

[Text] Beijing, 25 November (ZHONGGUO XINWEN SHE)--The latest issue of JINGJI CANKAO published here today carries an article, which says that issuing international bonds is a feasible way to raise foreign exchange funds, and this can be taken as the main method of raising funds during the Seventh 5-Year Plan (1986-1990).

The article says: At present, China can raise foreign exchange funds mainly through such channels as government loans, loans offered by international monetary organizations, export credit, bank loans, and the issuance of bonds. However, we are not in an active position when raising funds through some of the above-mentioned channels. For example, there are often some limits when contracting loans with the World Bank or with some foreign governments. Issuing bonds is a quite different channel with many special advantages. When there is a debt crisis creditors cannot transfer and sell their loans; however, if necessary, the holders of bonds can sell the bonds at any time. In recent years, some western countries have relaxed their restrictions on the issuance of bonds.

Since 1982, China has issued a number of kinds of bonds on the international bond markets in Japan and West Germany, and has accumulated a certain experience in this regard. When issuing bonds in Japan, the Bank of China was given a rating of AAA and the China International Trust and Investment company was rated AA. China's reputation on the international bond markets is very good. This year, China also issued Deutsche mark bonds in the Frankfurt international market and the investors vied with each other in buying the bonds issued by China. The authors of this article are two experts of Shanghai Finance and Economics College. They put forward four principles for issuing bonds on the international market:

First, the channel for issuing bonds should be diversified. So far, China has issued bonds just in two of the four major international bond markets, that is the Japanese yen bond market in Japan and the Deutsche mark bond market in West Germany. Henceforth, we should create conditions to enter the other two major markets--the U.S. dollar bond market in the United States and the Swiss franc bond market. In addition, we may try to issue some bonds on less important international bond markets, such as bonds denominated in Canadian dollars, Australian dollars, and French francs.

Second, the forms of bonds should be more diverse. So far, the bonds we have issued are all bonds with fixed interest rates. The lack of diversity of our bonds will not be favorable to attracting investors. Henceforth, we should consider the issuance of bonds with floating interest rates or bonds without interest. We may also issue large amounts of certificates of deposits.

Third, we should issue bonds denominated in various currencies. Now we have issued bonds denominated in the Japanese yen, the Deutsche mark, the U.S. dollar, and the Hong Kong dollar. Henceforth, we should consider the issuance of bonds denominated in other currencies so as to reduce the risks caused by the changes in exchange rates.

Fourth, more units in China should act as bond issuers. So far, only three units, namely, the Bank of China, the China International Trust and Investment Company, and the Fujian Investment Enterprise Company, have issued bonds on the international markets. Henceforth, more units should participate in issuing bonds. For example, the Guangdong Investment and Trust Company, the Shanghai Investment and Trust Company, and other specialized banks, as long as they have the conditions, could all issue bonds on overseas markets.

Recently, Wang Deyan, president of the Bank of China, required various overseas banking institutions to adopt diverse channels and forms to raise foreign exchange funds.

12913

CSO: 4006/737

FINANCE AND BANKING

SHANDONG FINANCIAL WORK CONFERENCE SETS TASKS

SK310912 Jinan Shandong Provincial Service in Mandarin 2300 GMT 30 Jan 86

[Excerpt] The provincial financial work conference, which ended in Jinan on 30 January, set forth the following emphasis for provincial financial work in 1986: We should ensure the fulfillment or overfulfillment of the annual financial revenue task and strike a balance between revenue and expenditures by supporting reform, promoting production, and improving social and economic efficiency.

The conference maintained that thanks to the implementation of the party principle of opening up to the outside world and invigorating the domestic economy, our province has witnessed an increasingly better situation in the economy and finances, and has created a new situation in which revenues have increased steadily, deficits have declined year after year, reserve financial resources have increased, and the progressive decline in expenditures has been stopped. In 1985, on the basis of effecting a 22.87 percent increase in revenue, the distribution of revenue has basically ensured the needs of develop reform and various other undertakings. Budgeted expenses in the cultural, educational, scientific, and public health undertakings increased from 600 million yuan in 1978 to 1.6 billion yuan in 1985, and the expenses in maintaining public facilities in the urban areas increased by more than 900 percent. Meanwhile, revenue distribution has become rational.

The conference stressed: Although we have effected a turn for the better in the financial situation, we must note that the contradiction between the supply and demand of funds is still very conspicuous. To fulfill the annual financial budget task, the provincial financial work must aim to promoting the reforms in all fields, increasing economic results, and striking a balance between revenue and expenditure. From now on we should pay attention to increasing revenue and economizing on expenditures, and in particular should attend to the following three tasks for increasing revenue:

1. We should formulate plans for giving appropriate preferential treatment in the fields of the financial system, policies, funds and routine work to the 50 poverty-stricken counties whose income falls short of expenditures in order to help them bring about an upswing in their economy in a relatively short period of time.

2. We should gradually establish township financial departments in towns and townships where possible, in order to fully mobilize the enthusiasm of towns and townships for increasing revenue and economizing on expenditure.

3. We should continually encourage institutions to turn themselves into enterprises, further strengthen the financial work of enterprises, urge enterprises and institutions to increase economic results, and lay a good foundation for fulfilling or overfulfilling the 1986 revenue task and striking a balance between revenue and expenditure.

/12913

CS0: 4006/737

FINANCE AND BANKING

SHENYANG BANKING REFORMS BOOST BUSINESSES

OW070739 Beijing XINHUA in English 0647 GMT 7 Feb 86

[Text] Shenyang, 7 February (XINHUA) -- Banking reforms being pioneered by this Liaoning provincial capital are benefiting small and large businesses alike, a banking official said here today.

Credit co-operatives to aid mainly small businesses have sprung up all over Shenyang, north-east China's main center for heavy industry, since it became one of five cities to pilot the reforms in 1984.

Up to the end of last year, 17 urban and 104 rural credit co-operatives had opened. They have sole responsibility for their profits and losses.

These cooperatives have savings deposits totalling 81 million yuan, and more than 6,200 small businesses have opened accounts with them.

Credit granted by them helps boost collective and individual businesses, which had difficulty in borrowing funds for development in the past.

The restructuring of the banking system will play a vital part in the progress of the country's overall economic reforms in the next five years, the official said.

With the approval of the People's Bank of China, Shenyang has set up three trust and investment companies, which offer a range of commercial credit, leasing, insurance and consultancy services, and supplement state banking facilities.

Aided by the Shenyang branch of the People's Bank of China, the Shenyang air compressor factory has entered into economic and technical co-operation with 12 provinces in the form of trade credit.

The trust and investment company of the Shenyang industrial and commercial bank has lent 25 million yuan to 56 enterprises, and leased them production lines, vehicles and other equipment, which will boost their total output value by 72 million yuan a year.

Approved by the bank authorities, 68 businesses in the city have issued bonds worth 140 million yuan to their employees as well as the public in the past year.

Money raised by the bonds will be used to improve older city districts, build homes and modernize industry. The bonds generally run for periods of between six months and five years.

The Shenyang cable plant has transformed two production lines with 20 million yuan raised by itself. When the production lines go into operation, they should boost output value by 50 million yuan a year, and profit by 15 million yuan.

According to the official, urban savings deposits last year amounted to 1.84 billion yuan -- 500 million yuan more than in 1984, and an average of 559 yuan per person.

Other cities piloting the banking reforms are Guangzhou, capital of Guangdong Province, Wuhan, capital of Hubei Province, Chongqing in Sichuan Province and Changzhou in Jiangsu Province.

/12929

CSO: 4020/203

FINANCE AND BANKING

BRIEFS

SHANGHAI PORT NONTRADE EARNINGS--Shanghai Port's nontrade foreign exchange earnings in 1985 reached in excess of U.S. \$500 million, accounting for 13 percent of the port's total foreign exchange income. The increase in this category of foreign exchange income has been the result of all kinds of good services rendered by Shanghai's various transportation businesses. [Summary] [Shanghai JIEFANG RIBAO in Chinese 23 Jan 86 p 1 OW] /12913

SHANGHAI INCOME TAX--Shanghai, 5 January (XINHUA)--Shanghai Municipality collected a record 1.3 million yuan of personal income tax in 1985. This was nine times more than the amount collected in the preceding year. [Summary] [Beijing XINHUA Domestic Service in Chinese 1157 GMT 5 Jan 86 OW] /12913

ZHEJIANG SAVINGS DEPOSITS--Savings deposits in Zhejiang banks increased by 3.1 million yuan in 1985. Average per capita savings deposit increased from 124 yuan at the beginning of the year to 168 yuan at the year-end. Bank loans decreased by 1.3 billion yuan in 1985 as compared with 1984, basically fulfilling state control on credit. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 6 Feb 86 OW] /12913

STATE TREASURY BONDS--According to information provided by the office of the Central State Treasury Bond Promotion Committee, this year's task for issuance of State Treasury Bonds has been overfulfilled. By the end of November, 6.47 billion yuan worth of State Treasury Bonds had been sold, exceeding the plan by 0.8 percent. State Treasury Bonds purchased by units totalled 2.197 billion yuan, whereas urban and rural people bought a total of 3.85 billion yuan worth. [Summary] [Beijing XINHUA Domestic Service in Chinese 0138 GMT 25 Dec 85 OW] /12913

BEIJING TAX REVENUE--In 1985, Beijing Municipality handed over 5.341 billion yuan in industrial and commercial taxes into the state treasury, exceeding the annual plan by 1.12 billion yuan, and showing an increase of 28.3 percent over 1984 if calculated in terms of comparable items. In 1985, the municipality as a whole organized tax checkups among more than 90,000 enterprises, and returned 420 million yuan in uncovered tax evasion and his propriation of funds for developing energy and communications projects to the state treasury. [Summary] [Beijing BEIJING RIBAO in Chinese 26 Jan 86 p 1 SK] /12913

DECISION ON DEFICITS--Decision of the Standing Committee of the Fujian Provincial People's Congress on Eliminating Financial Deficits

for 1985 and 1986. (Adopted by the 17th Session of the Standing Committee of the 6th Provincial People's Congress on 29 January 1986). Fujian Province achieved comparatively good results in its financial work in 1985. In accordance with the guidelines of the National Conference of Party Delegates and a relevant circular recently issued by the central authorities, the following decision is hereby adopted: 1. Revenues in excess of the budget at various levels for 1985 must first be used to make up for the deficits. The final accounts must not list the expenditures first and leave behind the deficits. 2. Financial budgets for 1986 at various levels must balance revenue and expenditure for the year with some surplus and no deficits. [Text] [Fuzhou FUJIAN RIBAO in Chinese 30 January 86 p 1 OW] /12913

OVERSEAS BANK BRANCHES--Beijing, 4 Feb (XINHUA)--The number of permanent overseas banking offices in China rose to 159 by the end of 1985, as compared with 63.3 years ago, according to the "ECONOMIC DAILY." The offices are operated by 79 banks and 16 companies dealing in insurance or bonds from 23 countries and regions, and are situated in major cities all over China. Since April 1985, the People's Bank of China has given 11 overseas Chinese and foreign banks and Chinese banks registered in Hong Kong permission to open branches in the Shenzhen, Shekou, Xiamen and Zhuhai special economic zones. [Text] [Beijing XINHUA in English 1458 GMT 4 Feb 86 OW]

POSTAL BANKING SERVICES BEGIN--Beijing, 31 January (XINHUA)--Postal banking services will begin in 12 Chinese cities Saturday, an official of the Ministry of Posts and Telecommunications said here today. The new deposit service will make it easier for people to save as well as generate new funds for state construction projects, the official said. "Post offices are in many more places than banks." Deposits will be accepted only for individual accounts, and interest rates will equal those of banks. Cities involved include Beijing, Shanghai, Tianjin, Zhengzhou, Shenyang, Shijiazhuang, Chengdu, Xian, Nanjing, Guangzhou, Fuzhou and Changsha. [Text] [Beijing XINHUA in English 1633 GMT 31 Jan 86 OW]

/12929

CSO: 4020/203

MINERAL RESOURCES

BRIEFS

JIANGXI MINERAL RESOURCES--Jiangxi's geological and mineral departments made breakthroughs in mineral prospecting during the Sixth 5-Year Plan. About 8 million tons of rare earth metal deposits and an estimated deposit of 280 billion tons of limestone were discovered during that period. [Summary]
[Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 5 Feb 86 OW] /12232

CSO: 4006/728

INDUSTRY

INVESTMENTS IN BUILDING MATERIALS INDUSTRY

OW070628 Beijing XINHUA Domestic Service in Chinese 0211 GMT 7 Feb 86

[By reporter Ge Daxing]

[Excerpts] Beijing, 7 February (XINHUA)--In recent years, China's building materials industry has kept its long-term interests in mind by significantly increasing its investments in education, whipping up the enthusiasm of the relevant departments in running schools, and laying a reliable foundation of manpower and intellectual resources for the building materials industry.

In order to keep pace with the rapidly developing economy and technology in the world, China's building materials industry needs large number of skilled people. At the same time, many areas, departments, and enterprises where building materials are manufactured also badly need manpower and seek to tap intellectual resources. The building materials departments in various localities that are experiencing difficulties in meeting the needs in this regard have increased their educational appropriations each year. The educational fund for 1985 reached 13 million yuan. More than 23 million yuan have been raised this year. In 1985, 4 percent of the capital construction investments managed by the State Administration of Building Materials Industry was used in manpower development. According to a plan, this percentage will gradually rise to 8 percent during the "Seventh 5-Year Plan." Most of the 27 secondary and vocational middle schools, 50 some technical schools, and 11 workers universities have been newly built in various localities in the last several years.

How can we train more and better qualified people with the help of all departments concerned? This has become an extremely important theme among the leaders in the building materials departments that badly need competent people. After summing up their experience in developing education for the building materials industry, they have gradually worked out a set of effective methods of running and managing schools at various levels. They have changed the practice of monopolizing the training of qualified people and their job assignments into a system of mobilizing various building materials departments, localities, and enterprises in setting up schools. The main points are as follows:

Primary education for the workers in the building material industry should be given by the enterprises themselves. Secondary education for the workers should

be given by the local authorities and the enterprises. Secondary and vocational middle schools, technical schools, and institutes of vocational education should be organized by the building materials departments in various provinces, municipalities, and autonomous regions and various localities. Higher education for workers and cadres should be given by the State Administration of Building Materials Industry and the departments in various localities in charge of developing building materials. The institutes of higher learning in building materials should be managed by the State Administration of Building Materials Industry. Vocational courses on building materials offered by various departments and local institutes of higher learning should be given support by the state and local building materials departments.

/12232

CSO: 4006/719

INDUSTRY

HUNAN SCORES SUCCESS IN ORDNANCE INDUSTRY TRANSFORMATION

HK111450 Changsha Hunan Provincial Service in Mandarin 1100 GMT 9 Feb 86

[Text] During the Sixth 5-Year Plan period, following the principle of attaining good variety, good quality, and a good level, and raising economic effectiveness, our province's ordnance enterprises carried out technological transformation. Of the 91 planned technological transformation projects, 86 have been completed and put into production, accounting for an increase of 130 million yuan in output value and increasing profits delivered to the state by 20 million yuan. These technological transformation projects have not only strengthened ordnance enterprises' capability to meet changes and to develop themselves, but have also promoted the development of products for civilian use. Over the last 5 years, the whole system developed a total of over 50 kinds of products for civilian use, such as bicycles, cylinders, and more. Of these, 39 have been put into mass production and 2 have entered the international markets. Making an investment of 14 million yuan together with eight other units to renew workshops and technologically transform equipment, the Jianghua Engineering Plant succeeded in manufacturing Conghe brand bicycles. At present, it can produce half a million bicycles a year and its products have developed from 1 to 4 varieties and 8 models and are selling well in 25 provinces and cities across the country. Last year it delivered profits to the state of 9 million yuan. The success of these technological transformation projects has also helped upgrade product quality. During the Sixth 5-Year Plan period, two products produced by our province's ordnance enterprises were awarded national silver medals and nine were selected as provincial top-quality products. The stability rate of product quality generally reaches over 97 percent, of which the proportion of top-quality products accounts for 40 percent.

/12232

CSO: 4006/719

INDUSTRY

BRIEFS

ZHEJIANG INDUSTRIAL OUTPUT--During the Sixth 5-Year Plan period, Zhejiang's industrial departments prefulfilled or overfulfilled all major production targets. Over the past 5 years, the province's total industrial output value increased at an average annual rate of 18.6 percent. Village and town industries developed rapidly during that period. Output of consumer items, particularly washing machines, refrigerators, television sets, bicycles, and other durable items, increased at a much faster pace than other products. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 8 Feb 86 OW] /12232

ZHEJIANG LIGHT INDUSTRY--By importing technology and equipment from abroad and carrying out technological innovation of existing enterprises, Zhejiang's light and textile industries rapidly increased production and improved economic results during the Sixth 5-Year Plan period. Over the past 5 years, the province's total light and textile industrial output value increased at an average annual rate of 14.8 percent. Total taxes turned into the state and profits earned during the period nearly doubled that in the Fifth 5-Year Plan period. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 9 Feb 86 OW] /12232

CSO: 4006/719

FOREIGN TRADE AND INVESTMENT

LONG-TERM STRATEGY FOR TUNGSTEN EXPORT

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 5,
Sep-Oct 85 pp 39-43, 60

[Article by Cui Yue [1505 1471]: "China's Tungsten Export Needs a
Long-term Strategy"]

[Excerpt] II. Problems in China's Tungsten Export

1. Absence of an Effective Resource Protection System: China's "Provisional Regulations for Mineral Resource Protection," promulgated in the 1950's, mentions in general terms the state ownership of mineral resources but does not lay down any specific and feasible protective measures. In practice, relevant government departments have not really adopted legal, economic or administrative mechanisms to protect tungsten resources so that a good deal of this valuable asset has been damaged. For example, following the decentralization of the power to export tungsten ore in 1981, many localities purchased it in vast quantities and exported it at low prices. Many mining enterprises are run by counties, communes and brigades, even individuals. Their recovery rate ranges only from 50 to 60 percent, far lower than the 85 percent in state tungsten mines.

2. Enterprises Are Allowed to Exploit Tungsten at Little or No Cost: The cost of Chinese tungsten sold abroad is much lower than that of similar foreign products. One reason is that in China, mining units in most cases can use the resources without having to pay for them. Even in 1982-83 when tungsten prices hit an all-time low in the international market, China's tungsten ore exports still reaped exceedingly high profits. This not only encourages excessive indiscriminate mining at home, but also contributes to a tungsten glut on the world market, depressing prices.

3. China's Export Management Policy Lacks a Scientific Basis: There have been two mistakes in the way we have managed our tungsten export. First, by allowing units to export tungsten on their own, we unleashed a flood of Chinese tungsten on the world market and tungsten prices took a tumble. Second, because of fragmentation, the prices of tungsten products at different levels were uncoordinated. At one point the prices of semifinished tungsten products dropped below those of raw tungsten. Experience shows that we must centralize the export management of a product like tungsten with its special nature and position and establish a comprehensive coordinated management system.

4. Production Is Divorced from Export: Chinese tungsten has two markets: a relatively stable domestic market and a constantly fluctuating international market. The export planning model traditionally in use in China is: domestic output - domestic consumption = China's export. This model ignores a key variable: China's export = international market demand for Chinese tungsten. Consequently, the export sector became a luckless buffer zone between the relatively stable domestic market and the cyclically unstable international market. In 1977, for example, both domestic and international demand rose sharply and the foreign trade sector was hard pressed to supply enough tungsten, so it turned to small local tungsten mines and painstakingly nurtured their growth. Soon, restructuring of the domestic economy was under way across the board, the capitalist world slid into another recession in 1980, and demand for tungsten dropped precipitously at home and abroad. The foreign trade sector, burdened with a large stock of the mineral, had no choice but to export it by slashing prices.

5. Irrational Tungsten Export Mix and Backward Quality Standards: Tungsten products can be divided into raw materials, semifinished products, and finished products, depending upon the degree of processing involved. Assuming their tungsten contents are identical, hard metal (finished product) costs four times as much as tungsten ore (raw material). But 80 percent of China's tungsten exports consists of raw materials, 20 percent are semifinished products, and there are hardly any finished products. Moreover, the quality of our tungsten products is relatively backward. Hard alloy made by advanced nations fetches two to three times as much as China's. As for quality standards, our inability to meet certain foreign substance content standards long in effect overseas also has an adverse impact on our tungsten export and prices.

6. Irrational Export Focus: Chinese tungsten exporting has gone through three stages (see Table 2). Given the distribution of the world's major consuming nations, our tungsten export focus for the past 10 years or so seems to be sensible. Actually, however, most of our exports to Western Europe are transit goods which finally end up in the Soviet Union, and Eastern Europe. Therefore, these countries remain the major consumer markets for our tungsten exports (and buy up 80 percent of them). This shows that, first, our export relies heavily on middlemen and has failed to establish extensive relations with the real consumers and, second, we have yet to open up the Western European, U.S. and Japanese markets.

Table 2. Tungsten Export Focus (In percentages)

<u>Export focus</u>	<u>1950-60</u>	<u>1961-71</u>	<u>1972-82</u>
USSR, Eastern Europe	100	63	38
Capitalist nations	<u>0</u>	<u>37</u>	<u>62</u>
Total	100	100	100

7. Inability To Control International Market Prices: As the world's top tungsten exporter, China exercises a tremendous influence on the world tungsten market. For years, however, our policy has been dictated by a concern for quantity, ignoring prices. Seldom do we take the initiative to influence or control tungsten prices internationally. Since tungsten ore is a primary product, both its demand and prices are highly sensitive to changes in the world economic scene. Because of violent price fluctuations, tungsten exports have been an exceedingly unstable source of foreign exchange despite the fact that quantitatively our tungsten ore exports have changed little from year to year in recent times.

III. Need For Long-Term Export Strategy and Its Substance

Tungsten being a strategic material, we must consider its strategic implications as well as its economic value. We must take into account its long-term economic significance as well as making it serve the current national economic drive. Hence we should be guided by a correct strategic ideology as we seek to protect, research, exploit, and develop this mineral.

Exporting represents a major way of exploiting tungsten. But never have we formulated and implemented an effective tungsten export strategy. Among the consequences of this failure are the irrational development and exploitation, even destruction, of a precious resource; the failure to effectively control international prices, which destabilizes our foreign exchange income; and losses for the state, with profits accruing to other nations. It is thus evident that the formulation of a scientific, rational, feasible and practical long-term strategy is in line with the needs of national economic development and basic national interests. Substantively such a strategy should include the following aspects:

1. Resource Protection: This is a prerequisite for ensuring the rational exploitation of tungsten resources. We must take a three-pronged approach toward resource protection. Legally, we should draw up a resource protection law to ensure the state's effective ownership over national resources and the rationality of resource exploitation, and stipulate severe penalties for individuals or units who damage resources. Economically, we should apply the law of value, encourage enterprises' to increase their tungsten efficiency, and prohibit the mining of tungsten resources without cost. Administratively, we should set up a strong government agency to resource exploitation and investigate the feasibility of exploitation plans, and examine and approve them.

2. Resource Exploitation Planning: Resource exploitation planning includes the long-, medium- and short-term planning of the prospecting, protection, exploitation, technological development and commercial utilization of resources. It must be consistent with the overall national economic plan, the 5-Year Plan, and the annual plan of which it forms a vital part. In drawing up a resource exploitation plan, we must consider both its economic significance over the long haul and the security interests of the state.

The importance of resource planning lies in providing our plethora of specific policies, principles and plans with an explicit scientific bases, avoiding irrational exploitation and coordinating the policies and schemes of different sectors (prospecting, production, research and export, etc.)

3. Export Management Policy: The question here is "centralized management" versus "decentralized management." A basic tenet of China's current economic system restructuring is the decentralization of managerial power to foster competition among enterprises in the same trade and hence improve economic results. Tungsten export, (along with the export of other commodities), however, cannot be governed by this idea for the following reasons. First, there is such a wide gap between the costs of domestic and foreign tungsten that tungsten-producing enterprises can make a handsome profit in the international market without really trying, so they have little incentive to improve production technology, upgrade management standards and further trim costs. Second, Chinese tungsten makes up a substantial portion of total world tungsten exports. If our own tungsten-producing units compete against one another in the world market, we will easily create an oversupply and drive down prices. Third, the inevitable result of such competition will be excessive indiscriminate mining at home, damaging the nation's resources.

4. Coordination Between Production and Sales and Strategic Reserve: China's tungsten export is conditioned by two different markets. On the supply side, it is conditioned by a relatively stable domestic planned economy; on the demand side, by a cyclical capitalist market. We manage the production-sales relations in accordance with the model, "output - domestic sales = export," and the result is any one of the four scenarios presented in Table 3. Whatever the scenario, the foreign trade sector invariably comes under intense pressure either because it cannot keep up with demand or because it is saddled with excess stocks.

Table 3. Export Scenarios Resulting from Fluctuating Demand

Foreign demand rises, prices soar		Foreign demand drops, prices fall
Production adjusted	Expanding production capacity may increase income, but once demand sags, excess production capacity results	Reducing production capacity may prevent a sharp price drop, but once demand bounces back, cannot produce enough to meet demand
Production not adjusted	Good export opportunities may be lost	Dump mineral abroad at low prices, which may cause prices to drop further, or let foreign trade sector run up huge inventory

A better way to address this problem will be to build up a national strategic material reserve (not to be confined to tungsten,) thereby replacing the "output - domestic sales = export" model with an "output - domestic sales = export + reserve" model. The functions of a strategic reserve are to: 1) be a "shock absorber" and regulate the relations between production and export; 2) help stabilize international market prices and support our foreign trade sector in realizing its marketing scheme; 3) moderate the repercussions of economic vicissitudes in the capitalist world on our production; and 4) from the perspective of national strategic interests, provide a necessary material reserve to meet any future contingency.

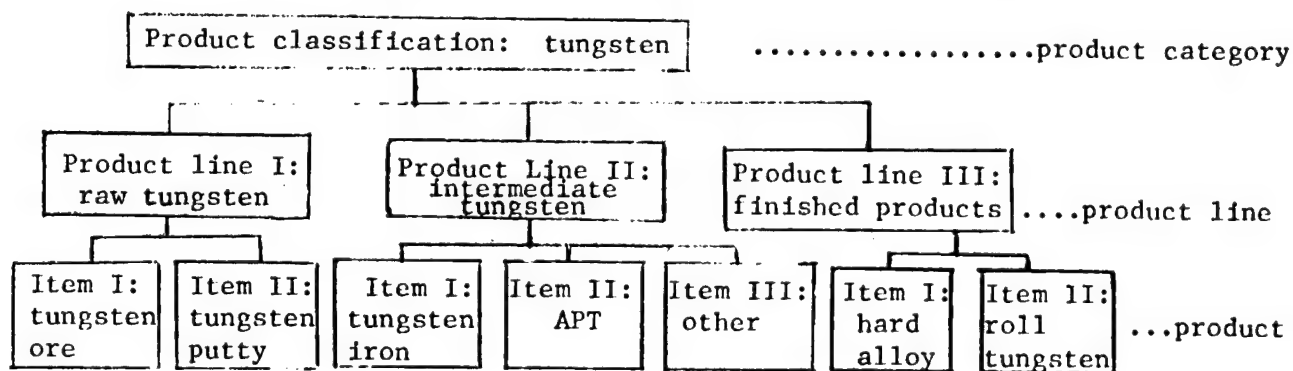
5. Product Strategy: This consists of three aspects: 1) export mix; 2) improving existing products; 3) the direction of product development, that is, the elimination of outdated products and the creation of new ones.

As the world's premier tungsten producer, China should naturally diversify the tungsten export mix as much as possible. It should be noted that because the jurisdictions of the several national companies which handled tungsten export in the past were delimited along production lines, there was at one point little coordination between the prices of different exports; ironically, highly processed exports were less expensive than primary products involving little processing. This illustrates the absolute need for strengthening coordination between different sectors with different product lines, which, in turn, requires an export management policy which stresses a high degree of centralization.

Product improvement is an ongoing task and encompasses such areas as quality, variety, standards, packaging and delivery, among others. The primary function of the export sector is to provide the production and research sectors with market information and be the intermediary between production and consumption.

The direction of product development has a major bearing on the future of China's tungsten industry. The basic direction China's tungsten export, production, and research should take is to gradually transform the present export mix dominated by raw materials into one dominated by finished products (see Diagram 1).

Diagram 1: Composition of Tungsten Exports



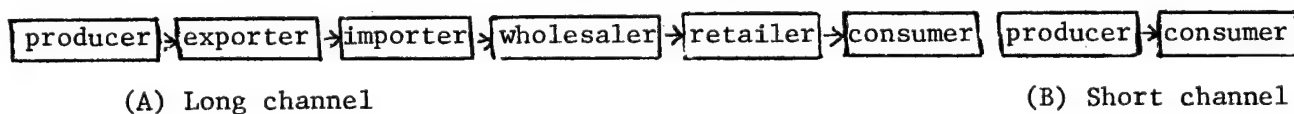
6. Pricing Strategy: The ultimate objective of any pricing policy is to maximize income. One can relate to pricing either actively or passively. In general small producers are at the "receiving end of pricing" and react to it, while large producers are better placed to influence prices. They are "price setters." With its tungsten exports accounting for 40 percent of total world exports, China is basically qualified to be a "price setter." In setting prices, it should avoid two tendencies. On the one hand, it should not be so preoccupied with quantity that it ignores prices, while on the other, it should not push for price maximization exclusively and neglect the implementation of marketing schemes. The basic goal common to all marketing schemes is to maximize economic results, but different marketing schemes often need different pricing strategies (see Table 4).

Table 4: Two of the Simplest Pricing Strategies and Their Marketing Schemes

	Low-price policy	High-price policy
Examples of marketing schemes	<ol style="list-style-type: none"> 1. Limit competitors' output 2. Prevent the appearance of the next generation of products 3. Expand market share 4. Clear domestic excess inventory 5. Protect domestic employment 	<ol style="list-style-type: none"> 1. Increase domestic reserve or foreign trade stock 2. Clear stock in international market in order to better control next round of supply-demand 3. Curb price-slashing by middlemen, speculators or certain authoritative international publications

7. Channel Strategy: Since products are intrinsically different from one another, the channels they must travel before reaching their consumers necessarily diverge. Channels are usually measured by their "length" and "width." To traverse a long channel, a product must go through several intermediate links, which naturally increases costs and makes the product more dependent on middlemen. A short channel bypasses both of these problems but it does require greater efforts by the producer to open up markets and woo customers. With large-volume commodities, the short channel constitutes a smarter strategy (see Diagram 2).

Diagram 2: Comparison of the Long Channel (A) with the Short Channel (B)



In a short channel, the producer must enter into direct relations with more users, thereby "widening" the channel, which is in fact the only way to increase one's market share and attract more users. Even as we try to make full use of the middleman, our tungsten export should adopt a "short and wide" channel strategy as much as possible. This strategy is superior in that it reduces our dependence on middlemen and hence cuts costs; establishes long-term and extensive relations with our users, in the process ensuring our market stability; and makes us more accessible to users' comments on our products, thereby impelling our production and export sectors to improve products and services and accelerate development of the tungsten industry.

12581/12624

CSO: 4006/482

FOREIGN TRADE AND INVESTMENT

SHANGHAI FOREIGN TRADE THRIVING DURING SIXTH 5-YEAR PLAN

Shanghai JIEFANG RIBAO in Chinese 5 Nov 85 p 1

[Article by Xu Qiuliang [6079 4428 2733] and Gao Xiaoxiao [7559 5135 4562]:
"Rapid Growth in Shanghai's Foreign Trade"]

[Text] Under the guidance of the party policy of "invigorating the domestic economy and opening the country to the world," Shanghai's foreign trade has made new progress during the Sixth 5-Year Plan period. From 1981 to late 1985, exports and imports handled by the port of Shanghai are expected to exceed \$20 billion, up more than 30 percent over the period of the Fifth 5-Year Plan. Exports have increased by about 20 percent. During the past 5 years, Shanghai's foreign trade has been characterized by the following.

1. Changes in Export Commodity Mix

Shanghai's export commodity mix has changed under the Sixth 5-Year Plan, with agricultural produce and sideline products becoming less important proportionally and industrial products increasing their share of total exports. So far one-fourth of Shanghai's export commodities are agricultural and sideline products, while three-fourths consist of industrial products. Shanghai products, in particular, have come to account for a continuously rising percentage of the port's exports, approaching 80 percent in 1984, up from 57.8 percent in 1979.

2. Foreign Trade Channels Further Broadened

At present Shanghai maintains trade ties with over 160 countries and regions in the world, up more than 10 percent over the Fifth 5-Year Plan period, and has 18,000 customers. Not only has it been doing more business with established customers, but it has also made significant headway in its trade with advanced nations such as the United States, Japan, the Federal Republic of Germany, [FRG], Britain, France and Australia. In recent years, in particular, exports to the Soviet Union and Eastern Europe have risen fairly rapidly.

3. Progress in Internal Cooperation

To find new sources of goods, Shanghai's foreign trade sector has actively adopted such methods as joint development, joint management and joint import of foreign technology and capital to promote economic cooperation with the Shanghai economic zone and relevant industrial and agricultural production units inside the municipality. It has established over 600 specialized production points jointly with the outlying counties and farms alone, forming a number of rudimentary export production bases. Among their 80-odd categories of products are cotton fabrics, cotton yarn, wool fabrics, apparel, knitwear, bedding, handicrafts, hardware, chemical industrial goods, drawnwork and toys.

4. International Connections Strengthened Continuously

During the Fifth 5-Year Plan, it was exceedingly rare for Shanghai to set up a permanent office abroad. Under the Sixth 5-Year Plan, Shanghai has been doing just that with great enthusiasm in order to strengthen overseas economic ties. As of today, it has set up permanent trade organizations and joint ventures in, and despatched permanent trade representatives to, such countries and regions as the United States, the FRG, Japan, Switzerland, Panama, Chile, Liberia, Togo, the Ivory Coast, and Hong Kong.

Meanwhile, Shanghai has also allowed foreign and Hong Kong financial institutions and enterprises to set up permanent organizations in the municipality. So far almost 200 concerns from over 20 countries have established offices in Shanghai, many of them banks and businesses with an international reputation.

Besides taking part in the export commodity trade fair in Guangzhou, Shanghai in recent years has also sponsored its own trade talks to which it invites new and old clients to discuss trade and other economic cooperation projects. At the same time, there has been a steady increase in the number of trade promotion and study delegations it sends abroad.

12581/12624
CSO: 4006/482

FOREIGN TRADE AND INVESTMENT

BRIEFS

GUANGDONG TECHNOLOGY IMPORTS--Over the past few years, industrial and communications enterprises in Guangdong Province progressed in importing advanced foreign technology and equipment. From 1982 to the beginning of this year, the province imported 700 items of production and assembly lines and 500,000 sets of equipment. With this technology and equipment, the province has scored marked economic results. Over the past few years, after importing technology, our province has produced approximately 10,000 new varieties. The province's gross industrial output value over the past few years has increased by a yearly average of 9 percent. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 28 Jan 86 HK] /12232

CSO: 4006/7]6

LABOR AND WAGES

STATE EMPLOYEES' WAGES INCREASE 2.4-18.7 PERCENT

OW141016 Beijing XINHUA in English 0836 GMT 14 Feb 86

[Text] Beijing, 14 February (XINHUA) -- Wages of workers employed by the state increased by between 2.4 and 18.7 percent last year, said today's "ECONOMIC DAILY," quoting state statistical bureau figures.

Wages (excluding price allowances) of workers in culture, education and health undertakings rose most rapidly. Their average annual income increased by 18.7 percent to 1,123 yuan.

The gap between their wages and those of industrial workers has been narrowed. In 1980, they earned 125 yuan a year less on average. Last year the gap was 75 yuan.

The highest wage earners, however, are employees in construction and geological exploration departments. Their average annual income increased by 13.3 percent last year to 1,438 yuan.

They are followed in the earnings league table by workers in transport and posts and telecommunications departments, whose wages averaged 1,344 yuan last year. Next come scientific research institute employees with an average of 1,237 yuan.

Workers in financial and insurance departments had the lowest income growth rate of 2.4 percent. Their average wage last year amounted to 1,172 yuan, which was higher than governmental office and shop workers.

Office workers earned 1,099 yuan on average, while wages in commercial departments and service trades averaged 1,041 yuan.

/12929

CSO: 4020/203

TRANSPORTATION

BRIEFS

SHANDONG TRANSPORTATION DEVELOPMENT--Shandong Province witnessed an upward trend in passenger and freight transport during the "Sixth 5-Year" Plan period. It has increased highway transport mileage by 900 km, newly built 11 berths along coastal ports, and increased the number of civilian motor vehicles by some 800,000. The volumes of passenger and freight transport showed an annual average increase of 14.8 percent and 7.8 percent respectively. The province as a whole has some 460,000 cars, 300,000 trucks owned by individuals or collective households, 260,000 tractors, and more than 80,000 specialized households engaged in transport business. So far, 21 cities and counties in the province have established shipping companies which have 900 cargo ships with a total capacity of some 49,000 tons, up some 26,000 tons over 1980. [Summary] [Jinan DAZHONG RIBAO in Chinese 28 Jan 86 p 2 SK] /12232

SHANDONG VEHICLES--Shandong Province has 187,000 vehicles, averaging 1 per 400 persons. Last year the province's planned vehicle output was 7,300. The general sales situation is good. Vehicle output will increase by 10 to 15 percent this year, and it is estimated that they will have a good market. The province has 360,000 tractors and 107 million mu of farmland, averaging 1 per 45 households or per 296 mu of farmland. [Excerpts] [Jinan DAZHONG RIBAO in Chinese 14 Jan 86 p 2 SK] /12232

SHANGHAI HARBOR FREIGHT--By 2200 hours [1400 GMT] on 31 January, Shanghai Harbor had already handled 10 million metric tons of freight since the beginning of this year, loading and unloading a total of 331 vessels with foreign trade goods. Both are record figures. [Excerpts] [Shanghai City Service in Mandarin 0100 GMT 1 Feb 86 OW] /12232

CSO: 4006/729

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

PRC JOURNAL VIEWS USSR ENTERPRISE OWNERSHIP, OPERATION

HK081101 Beijing SHIJIE JINGJI in Chinese No 10, 10 Oct 85 pp 35-36, 18

[Article by Lin Shuiyuan [2651 3055 3293], of the World Economy and Political Research Institute under the Chinese Academy of Social Sciences: "Recent Changes in the Forms of Ownership and Methods of Operation in the Soviet Union"]

[Text] Generally speaking, the economic reforms of the Soviet Union and East European countries contain an expansion of the authority of enterprises. However, if appropriate readjustments are not made in the forms of ownership and methods of operation, expansion of the authority of enterprises will be very limited and it will be very difficult for enterprises to really become relatively independent commodity producers. Expedited by practice, the economic reforms in these countries have in recent years involved changes in the forms of ownership and methods of operation to varying degrees. Even in the Soviet Union which takes a prudent attitude toward reforms, some changes have taken place in the forms of ownership and methods of operation both in theory and in practice. They deserve our great attention.

I. New Explorations in Theory

Since 1965 when the Soviet Union pursued a new economic structure in an overall manner, there has not been any great improvement in its economic management mechanism and the declining trend in its economic growth rates has not been reversed. To explore new avenues of reform, in recent years the Soviet theoretical circles have begun proving the necessity of economic structural reform by proceeding from the basic contradictions of a socialist society, in particular from the contradiction between the relations of production and productive forces. As the important component part of the relations of production, the relations of ownership and the specific form of their realization (methods of operation) have become the important aspects in their theoretical studies.

In February 1983, in his article entitled the "Theory of Karl Marx and Several Problems Concerning the Soviet Socialist Construction," Yuri Andropov pointed out, to develop the productive forces, we must have a corresponding form of organizing economic life. Transformation of ownership is by no means a one-time move. The socialist historical experience has proved that it is no easy job to transform "mine" (that is, private ownership) into "ours" (that is, public ownership) and the transformation will take a long process which involves

many aspects of endeavor. In a speech he delivered at a session of the CPSU held in June of the same year, Andropov sternly criticized the past practice of mechanically transforming collective farms into state farms, asserting that the fusion of two ownership systems (the system of ownership by the whole people and that of collective ownership) could take various different forms, including the establishment of integrated entities combining agriculture and industry. In December 1984, in a speech delivered at a national symposium on the science and practice of perfecting developed socialism and ideological work, Mikhail Gorbachev also stressed that it was necessary to perfect the forms of socialist ownership so as to ensure that direct producers and the means of production under the system of public ownership will be combined more organically. These statements by Soviet leaders are no doubt a stimulus to the Soviet theoretical world. In recent years, in their study of the forms of ownership and methods of operation, the Soviet theoretical community has put forth a series of new ideas conducive to promoting economic reforms, three of which are most important.

1. Many theoreticians expounded the necessity of separating ownership from the power of operation by proceeding from the relations of ownership and the specific forms of their realization, thus providing theoretical basis for strengthening the decisionmaking power of state-owned enterprises in operation while maintaining the system of ownership by the state.

Soviet economic theory has invariably stressed the centralized and planned leadership of the national economy and the connection between centralized management and public ownership (that is, the identity of the power of operation and ownership). However, in recent years, quite a few economists have come to realize the importance of giving state-owned enterprises full decision-making power in operation and expounded the relative economic independence of enterprises as one of the characteristics of the socialist system of ownership by the whole people. Some economists maintain that social division of labor and the deepening of socialization will give rise to the constant emergence of new enterprises, integrated companies, and new departments, whose independent nature in production and technology will enable them to become economically independent. Others contend that the main reason behind the preservation of relative economic independence of enterprises lies in uneven economic development, which is manifested in the fact that the combination of various production units with different amounts and qualities of the means of production results in different economic results. And still others, basing themselves on the organic relation between the relations of ownership and economic interests, argue that the system of ownership by the whole people should embody the economic interests of the state, the collectives, and the individuals in an overall manner. Therefore, under the system of ownership by the whole people, there is also a need to practically ensure the group interests of the enterprises as collectives, their integrated entities, and even of the departments of the national economy. In other words, even a state-owned enterprise should also reflect its special economic interests in its independent operation. All these arguments serve as the objective basis for expounding on the different facets of the expansion of the decisionmaking power of enterprises in operation.

2. Many economists criticized the idea of the system of ownership by the whole people being superior to that of ownership by the collective and the mechanical practice of transition from the system of ownership by the collective to that of ownership by the whole people, contending that the collective ownership system still had potential for further development, and advocated that the fusion of the two ownership systems could be achieved through establishment of a mixed ownership system. This has thus provided a theoretical basis for the consolidation and development of the current collective economy.

For a long time, the Soviet theoretical community has simply linked the socialization of production with the transition of the system of ownership by the cooperative and the collective farm to that of ownership by the whole people, regarding the system of ownership by the whole people (the system of ownership by the state) as reflecting "the principles of socialization" in the fullest way. This practice led to blind pursuit of socialist nationalization, that is, blindly initiating a transition from collective farms to state farms.

In recent years there has been a significant change in theory and viewpoint in this regard. Some economists pointed out that the theory put forth by some scholars in the 1950's that the system of ownership by the collective farm had hindered the development of the productive forces obviously lacked a dialectical viewpoint. They held that practice over the years had proved that many collective farms did not fall behind and even sometimes surpassed state farms in such areas as labor productivity growth rates, product cost cuts, output of products, and production rates of livestock products. Therefore, the system of ownership by the collective farm should not be regarded as an "obsolete" form of the agricultural economic relations system. Their conclusion is that it is not wise to regard the system of ownership by the collective as inferior to the system of ownership by the state in very general terms and that the development of the socialist ownership system should take the road in which the two ownership systems develop in a balanced way and will ultimately merge into the communist system of ownership by the whole people rather than a road of nationalizing enterprises under the collective ownership system. The Soviet Union has discarded the traditional practice of mechanically initiating transition from the system of ownership by the collective to that of ownership by the whole people, with most people advocating development of a mixed ownership system in various forms, such as integrated entities combining industry and agriculture. Most economists held that the current economy under the collective ownership system still had potential for further development. Some economists even favored an expansion of the scope of the collective economy. All these have had a certain impact on the readjustment of the existing forms of ownership.

3. Some economists have publicly affirmed the necessity of developing the individual economy and, starting from the general structure and development of socialist ownership relations, have proposed various economic forms including the private economy be developed.

For quite some time, the Soviet theoretical circles have denied the necessity of the existence of a private economy under socialism and taken a negative attitude even toward individual peasants and handicraft workers who are in existence in real life but very limited in number. Therefore, the study of

the position of the private economy in the general structure of the socialist national economy has almost become a theoretical forbidden zone in the Soviet Union.

In recent years there has been a change in theory and viewpoint in this regard. Most importantly, some economists have expressed their definite views on the necessity of the existence of a private economy. For instance, Mu. Ba Fu Luo Wa [1191 1572 3940 3157 1216] argued "in the situation in which the state cannot promptly exercise control over the nationalized private enterprises economically, it is advisable to use the private sector of the economy for the time being to improve the work of meeting the needs of our residents." (Footnote 1) (See: Article by Mu. Ba Fu Luo Wa included in the book of "Common Characteristics of Building Developed Socialism," edited by A. Bu Jian Ke [7093 1580 1017 4430], (1980 Russian edition)). The well-known economists A. Aganbegyan wrote an article, pointing out, apart from the material incentive system in distribution, there also exists another incentive system which is "more flexible and active." This means allowing the existence and development of "private business people" (for example, allowing owners of private cars to let their cars). (Footnote 2) (A. Aganbegyan: "Incentive and Potential," 12 December 1982 issue of LABOR NEWS. In addition, a certain person definitely advocated that efforts be made to absorb the useful experiences of other socialist countries and "to set up small-scale state-owned enterprises, cooperative enterprises, and small enterprises based on the initiative of individuals." (Footnote 3) (Er. Ka La Ge Duo Fu [1422 0595 2139 2706 1122 1133]: "On the Organizational Structure of Industrial Management," the Soviet Union's "The Economy and Organization of Industrial Production" No 8, 1983).

Besides some relatively radical economists who publicly advocated development of the individual economy, some other economists regarded different forms of ownership as the specific forms of the realization of the socialist ownership relations as a whole and proceeded to affirm the socialist nature of the multiple forms of ownership including the individual economy. For this reason, they also contended: "From the viewpoint of promoting and bringing the potential of the national economy into fuller play, diverse social economic forms are completely in compliance with the current development level of productive forces" and attention should be paid to "exploiting the possible use of such forms of ownership as private and cooperative ownership." (Footnote 4) (See: The coverage of a symposium held in Kharkov on the problem of ownership which was published in the Soviet Union's "Economic Science" No 5 1983).

II. The Initial Practice of Readjusting the Forms of Ownership and Methods of Operation

As stated above, in recent years there has indeed been a fairly remarkable change in the theory concerning ownership in the Soviet Union. Though initial and indefinite, the change has affected or is affecting the practice of economic reforms to a certain extent. Its main manifestations are that methods of operation have changed and become dynamic and the structure of ownership have changed to a certain degree.

1. A contract system based on the work team has been introduced among the internal departments of an enterprise.

As early as the 1960's, the Soviet Union began to introduce the organizational form of the work team among the internal departments of an enterprise. At present the work team has become the basic organizational form adopted in many productive integrated companies, enterprises, and work sites. However, only the recently emerged contractor-based work team which practices its own business accounting and bases its work on a unified labor order (quota) with payment linked to the end results of its operation can be considered a fairly perfect form of the work team and provide a foundation for a collective contract system. By the end of 1982, the work team which adopted the principles of business accounting had constituted only about 10 percent of the total number of work teams in the Soviet industrial departments. To introduce a collective contract system and business accounting system among the work teams, in December 1983 the CPSU Central Committee adopted a resolution "On Further Developing and Raising the Efficiency of the Labor Organization and Incentive Forms of the Work Team in Industry" urging development of a comprehensive work team and a work team based on an overall contract system which contracts production tasks under unified management and links payment to the end results of operations. The resolution proposed that engineers and technicians as well as production organizers be included in a large-sized comprehensive work team. This contract-based work team with its own business accounting carries out the production of a certain product or the construction of a specific project according to the quantity, quality, and time limits stipulated in the contract it entered with the enterprises concerned and correspondingly gets payment for labor as stipulated in the contract.

The collective contract system in agricultural production came into existence earlier on. The most popular form of the agricultural collective contract system is the mechanized work-contracting group. However, up to 1982, only 9 percent of the production teams or groups in the planting industry had adopted a contract system and the number of such production teams or groups in other departments was even smaller. In view of this state of affairs, in May 1982, a session of the CPSU Central Committee adopted "A Program for the Food of the Soviet Union Before 1990." It stipulates that the collective contract system should be introduced intensively during the 11th 5-Year Plan period.

With regard to the changes which the implementation of the collective contract system based on the work team has brought to the enterprises' methods of operation, in his speech to the national conference attended by secretaries in charge of agricultural production which was held in March 1983, Gorbachev pointed out: The work team based on self-government and a contract system has the right to decide the composition of the specific unit's staff and elect its leaders and social autonomous organ--work group or work team committee; the right to alter technologies and organize production and labor in an overall manner in the light of changed conditions; and the right to independently work out the plan for wage advance payment and distribution for the unit. Moreover, the economic relations between contracting units and the administrative authorities of enterprises and other sub-team collectives and the rights and duties they are to undertake have been codified in the legal form.

In the Soviet theoretical circles there is no consensus view on whether or not the work team which adopts a contract system is an economic entity. However,

they have a definite view on one point: Because the rights and responsibilities of the collectives which adopt a contract system are strengthened and because the payment for labor of their members is decided directly by the achievements of their operations, the adoption of this collective contract system is indeed a change in the methods of operation.

2. A system of contracted responsibilities based on the enterprise has been introduced among livelihood services departments. A recent Soviet economic reform which has had a considerable impact on the enterprises' methods of operation was started on 1 July 1984 in the livelihood services departments of the Russian Republic as an experiment. According to the stipulations of the Soviet government, the enterprises involved in the experiment practice a system of handing over a fixed stable portion of profits to the state and of fixed amounts of wage and bonus funds; apart from the portion of profits which should be delivered to the state as required by fixed quotas, the enterprises are entitled to dispose of the remaining sum of profits and the state shall not take back the funds officially owned by the enterprises through accumulation; enterprise leaders are entitled to use the save portion of wage funds as professional and technical subsidies for their staff and workers and the amount of bonuses for the enterprises' staff and workers is decided directly by the increased volume of everyday-life services; and the work team with its own business accounting is introduced among the internal departments of enterprises, a form under which payment is linked to the end results of labor, and wages for the collectives are distributed according to the multiplier of labor contributed.

The well-known Polish economists Bu. Ming Zi [1580 2494 5419] pointed out: The essence of the system of ownership by the state "is surplus products going to the state" and if the whole or most of surplus products go the collectives, this will mean the system of ownership by the collective. What plays a decisive role in this respect, he contended, is real content and not form, that is, the ownership of surplus products in economic terms. In our opinion, as far as the former state-owned enterprises are concerned, having departed from the economic status of being units designated exclusively to carry out state plans, they have the complete decisionmaking power in operation while delivering to the state a fixed amount of profits as required by state stipulations. Hence, there is a change in their method of operation. If the enterprises have the right to dispose of most of their surplus products and are in a position to independently use their surplus profits in investing in expanded reproduction (particularly, investment in fixed assets), this will result in a change in the nature of the enterprises' ownership. However, in terms of the current situation in the Soviet Union, the quotas of profits to be delivered to the state by the enterprises involved in the experiment as stipulated by the state are generally higher than the amounts of profits retained by the enterprises. Moreover, because the state has not clearly defined a policy of allowing the enterprises involved in the experiment to build the economic sector partially under the system of ownership by the collective, generally speaking, the enterprises are not willing to invest in fixed assets using the surplus profits at their own disposal. For all that, with the remarkable change in the economic status of the enterprises involved in the experiment, a fundamental change has really taken place in their methods of operation, a change from being run by the state to being run by the collectives.

3. The economy under the system of ownership by the collective has been developed within given limits.

Generally speaking, whether the contract system based on the work team in the internal departments of an enterprise (or a collective farm) is introduced or the contract system based on the enterprises is implemented, it will only result in a change in the methods of operation (that is, a change from being run by the state to being run by the collectives or from being run by the big collectives to being run by the small collectives) and will not touch on the form and structure of ownership. However, in recent years the Soviet Union has developed collective enterprises in the countryside. This has brought about a change in the structure of ownership. The decision adopted by the CPSU Central Committee and the Soviet Council of Ministers in January 1981 "On the Complementary Measures for Increasing the Individual Citizens' Sideline Production of Farm Produce" clearly stipulates that it is necessary to work out the complementary measures for further developing collective gardening undertakings and vegetable-growing businesses and to expand the area of land for these purposes. Stimulated by the decision, from 1981 to 1982, 3,438 gardening cooperatives were set up throughout the country, with some 700,000 households participating in them. By 1982, the number of households whose members engaged in collective orchards and collective vegetable farms all over the country had grown to 5.2 million and 5.5 million respectively, thus expanding the economy under the collective ownership system.

4. The development of individual sideline occupations is encouraged and supported.

Individual household sideline production occupies an important position in the Soviet individual economy. However, in the 1970's, due to the failure to adopt necessary measures to improve the production and operational conditions for individual sideline production in real work, individual sideline production developed slowly and in some places the output of individual sideline production even declined considerably. To stimulate the development of individual sideline production, in 1977 and 1981 the CPSU Central Committee and the Soviet Council of Ministers successively adopted two decisions on developing individual sideline production. The two decisions demanded that collective farms and state farms build ties with individuals engaged in sideline production through signing production-marketing contracts; instructed the departments concerned to formulate and implement effective measures to ensure the supply needed by individual sideline production of fodder, young stock, young fowls, implements for orchards and vegetable farms, packaging materials, small machines and tools and fertilizers; and urged that the scope of purchasing activities by consumers' cooperative societies should be expanded and the number of commission agents for farm produce on the market of collective farms should be increased. All these measures have brought the potential of individual sideline production into fuller play and boosted the production of farm and sideline products. Compared with the same period of 1981, on 1 January 1983 the number of cows raised by individuals engaged in sideline production increased by 1,042,000 head (up 4.5 percent) and that of pigs, increased by 1,794,000 head (up 12 percent). At present there are 3,510 individual units (households) of engaged in sideline

production in the Soviet Union and their output value comprises more than one fourth of the nation's total agricultural output value. At the beginning of 1983, the number of cows, pigs, and sheep raised by individuals engaged in sideline production accounted for one fifth of the nation's total and that of milch cows amounted to one third of the nation's total. The output of meat, fat or oil, milk, vegetables, and fruit turned out by individuals engaged in sideline production made up about 30 percent of the nation's total output and that of potatoes constituted approximately 60 percent of the total harvest yield.

Apart from developing sideline occupation in agricultural production, the Soviet Union has recently stressed the use of laborers working on their own in service trades. One of the forms adopted is to recruit after-hours "night-shift technicians." In other words, leaders of the livelihood services enterprises are allowed to recruit engineers, technicians, and staff members in the same trade as part-time working personnel so as to enable them to provide livelihood services to society in their spare time using their skills and especially to improve service work at night or on holidays, and enable them to gain earnings from their part-time jobs. This economic form is similar to the sideline occupation in agricultural production.

While adopting the policy of supporting and encouraging individual sideline production, the Soviet Union has adopted a fairly conservative attitude toward the development of private enterprises and individual peasants households. However, because of the needs of real life, in recent years, the Soviet Union has become a bit more flexible in its attitude toward the development of the small individual economy. Consequently, some small leased enterprises based on individual management have emerged along with individual peasant households which carry out their operations on a contract basis. For example, in the mountainous areas of the Georgian Republic, some collective farms which suffered losses year after year have contracted their livestock and land to the peasants, provided them with loans, machines, and fertilizers, and signed contracts sale with the latter for their farm products at the prices they had agreed upon in advance. In the Estonian Republic, some people including De Lu Wei [3676 7627 4850], deputy chief of the republic's Livelihood Services Department, demanded that small tailor shops and shoe-repair shops be leased out to "those who manage to meet the requirements for their operations both in variety and quality of service, to hand over to the livelihood services enterprises the maximum quantity of revenue in the form of bills, and to increase the volume of service at a required rate" and suggested that the experiment be tried first in such types of work as hairdressing, house cleaning, and the caring for children and old people, in which there is little difficulty in the problem of supplies (referring to implements and facilities for work). They contended that this was a form of individual labor in the services business and a "leasing system."

III. Theoretical Limitations and Their Impact on Economic Reform

In recent years, the change in the Soviet theory on ownership has brought about some changes in its methods of operation and some readjustment in the form and structure of ownership. However, all these changes are just a beginning and limited in scope and thus have a limited effect on the national economy. The reasons for this lie mainly in the limitations of traditional concepts as judged from a theoretical viewpoint.

Economic reforms in the Soviet Union have always centered on readjustment of decisionmaking power (either expansion of the management power of a locality or limited expansion of the management power of a large-sized enterprise) and seldom involved readjustment of the forms of ownership and methods of operation. In other words, exclusive attention has been paid to the readjustment of the structure of decisionmaking to the neglect of the close relations between the structure of decisionmaking and that of ownership and of the appropriate readjustment of the structure of ownership.

the main objective of economic reforms is to use the positive role of market mechanisms to stimulate economic development while upholding the socialist planned economic system. In using the positive role of market mechanisms, two objectives can be achieved. One objective is to use market forces to differentiate and compare the operation results of various enterprises and the pressure resulting from the use of market forces to promote enterprises to improve their operations and management and raise their economic results. The other objective is to use the indicator of market forces to discover changes in social demands so as to readjustment production patterns, to strengthen the weak links in social production, or to fill in the gaps in such production, and to gear production to the needs of society. However, if the forms of ownership and methods of operation are not properly readjusted, it will be difficult to achieve the two objectives.

First, with the forms of ownership and methods of operation being left unchanged, the state cannot but measure the results of an enterprise's operation by how well it fulfill its plan. Such being the case, the practice of management based on power sharing (that is, expansion of authority of enterprises) can take effect, if the use of targets set according to mandatory planning is reduced or readjusted. Under such circumstances, to get a greater share of retained profits as stipulated, on the one hand, the enterprises frequently try their utmost to hold back their existing production capacity and make a bargain with the state while working out plans to lower their production tasks, and on the other, they employ some tricks in fulfilling production tasks by using the expanded limits of authority and seek ways of obtaining various illegal profits. When the total output value was used to measure the operation results of enterprises in the Soviet Union, the enterprises invariably made every effort to use precious raw and semifinished materials so as to boost their total output value, thus causing enormous waste in the use of raw and semifinished materials. However, when the system of net output value targets based on quotas was introduced in favor of the above practice, the enterprises did their best to make whatever they could by themselves so as to increase the proportion of the quota-based net output value in the value of their products. This increased the enterprises tendency to become "big and complete" or "small but complete," thus hindering the improvement of the specialization and cooperation levels. If the targets based on material objects are used to assess the operational levels of enterprises, this will also lead to a series of contradictions and problems. If the targets based on quantities (namely, total output) are adopted, more often than not, the enterprise will concentrate on quantity to the neglect of quality and if targets based on product quality (that is, the usefulness of products to society) are introduced, it will be difficult to find a comprehensive index to accurately measure such usefulness.

Therefore, when the forms of ownership and methods of operation are not changed, the attempt to promote enterprises to improve their operations and management by reducing or readjusting the targets set according to mandatory planning is not only difficult to realize but it will, as often as not, give rise to many new contradictions and problems.

Second, by giving more power to enterprises on condition that the forms of ownership and methods of operation are not changed, it is impossible to really turn enterprises into relatively independent commodity producers and also impossible to bring the positive role of market mechanisms into effective play. When the existing forms of ownership and methods of operation are preserved, the standards to measure how well an enterprise is operated are planned targets. Most of these targets (except the output value of sales) [xiaoshou e chanzhi 69090786 7345 3934 0237] are not decided by market conditions, that is, they are not restricted by the market. Feeling no real pressure from the market, the enterprises not only lack an internal driving force for improving their operations and management but also lack the ability to adapt themselves to social needs. Where the market lacks normal competition and a balance between supply and demand, more often than not, the enterprises will concentrate on the production of products which promise greater profits by taking advantage of abnormal market relations and of the state relaxing control over planning, thus undermining state plans. Meanwhile, some economic sectors which originally existed quite legally in society illegally develop in the form of a so-called "second economy." This has led to the situation in which what should be decentralized cannot be decentralized and what should be centralized cannot be centralized or has not only suppressed the growth of various different economic sectors but also undermined unified state plans. In brief, if no appropriate readjustments are made in the forms of ownership and methods of operation, it will be difficult to simultaneously expand the authority of enterprises and to strengthen their responsibility. Market mechanisms will frequently play a negative rather than positive role and cause the enterprises to concentrate on illegal profits rather than encouraging them to turn out products needed by society, and may proceed to undermine state plans.

The developments stated above forced people to gradually shift economic reforms from expanding the authority of enterprises (namely, expanding the decision-making power of enterprises in operation by reducing the use of targets set according to mandatory planning) to readjusting the forms of ownership and operation. It is precisely for this reason that in recent years, while upholding the system of ownership by the state, the Soviet Union has contracted some state-owned enterprises (or leased as it can also be called) to the collectives for operation (such as the enterprise contract system practiced by the Livelihood Services Department of the Russian Republic). This change in operation methods has enabled enterprises to have complete decisionmaking power in operation. In the enterprises where the contract system is introduced, the motive force that promotes the enterprises to improve their operations and management is their collective economic interests which are realized through the functions of various market mechanisms rather than administrative discipline, and the standard of measuring their results of operation are the profits they created under the supervision of the market and society rather than their performance in fulfilling state plans. This will help overcome the contradiction between

the state and the enterprises and bring the role of market mechanisms into play to a certain extent. However, at present those adopting this method of operation are confined to the enterprises under specific departments in specific regions of the Soviet Union. Moreover, even this practice of invigorating the economy using the leasing method still have fairly great limitations.

As far as economic invigoration is concerned, if we view social production as a process of reproduction which repeats itself again and again, we must take into consideration the creation of new production capacity including the expansion and technical transformation of existing enterprises and the building of new enterprises. This calls for an automatic regulatory mechanism for enterprises to make investment in expanded production. However, this effective mechanism is nonexistent in the contract system under which the leasing method is exclusively adopted. With the introduction of a contract system, after delivering to the state that portion of profits stipulated in the quotas, instead of being willing to invest the surplus profits which they are entitled to retain under their disposal in fixed assets, generally speaking, contractors try hard to use more surplus profits in the distribution of incomes among their staff and workers. Not only will this practice be detrimental to the development of social production (particularly the progress of technical innovation) but it will also cause excessive expansion of social consumption demands and a strain on supplies of consumer goods.

It can thus be seen that to really invigorate the economy, apart from using various methods of operation, it is also necessary to appropriately readjust the form and structure of ownership and to adopt a principle that allows various economic sectors to exist side by side. In other words, while the leading position of the state economy is upheld, appropriate efforts should be made to develop the collective economy, the individual economy, and new enterprises under the system of mixed ownership. However, the theory which occupies a dominant position in the Soviet Union contends: There is no need to readjust the existing forms of ownership and a significant change in the mandatory planning system is not allowed. In accordance with this theoretical viewpoint, it is impossible to make any significant change in the methods of operation still less a significant readjustment of the forms of ownership.

True, the number of additional collective orchards and vegetable farms in the Soviet Union has increased in recent years but not long ago, in a question and answer session with reporters, Eduard Shevardnadze, former first secretary of the Communist Party of Georgia, disclosed that while turning over some loss-making collective farms to consumers' cooperative societies to operate, Georgian Republic authorities indicated that "this method will not be introduced for the time being" in the cities. The reason behind the argument was that when the prices listed by the state, the cooperatives, and the individual businesses were simultaneously used, the abuse of this method was very likely. This indicates that the development of the collective economy is confined to the countryside. As for the development of the individual economy, the long-standing Soviet official views are recognition of individual ownership of individual consumer goods and the means of production used in directly meeting the needs of individual laborers and their family members for carrying out sideline production, and non-recognition of the existence of the individual

economy under which people make a living mainly by using the means of production. At present although some people proposed developing the individual economy within a certain limit, no official endorsement has been authorized so far. All these show that compared with the readjustment of the methods of operation, the readjustment of the forms of ownership will be much more difficult.

Recently, in his report to a meeting on the problem of scientific and technological progress, Gorbachev stressed that it was necessary to significantly streamline the administration of various departments to cut off superfluous administrative links, and to shift the focus of the whole effective economic work to enterprises and that integrated companies and enterprises should implement a complete business accounting system so that the activities of enterprises will be more and more frequently regulated by economic quotas. He explicitly proposed that the enterprise contract system and the work team contract system introduced among the internal departments of enterprises be boldly popularized. These measures, if implemented successfully, will in effect cut off the administrative intervention by various departments in the affairs of enterprises and proceed to bring about a change in the enterprises methods of operation (even in the forms of ownership).

/12232

CSO: 4006/725

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

SOUTH KOREA'S RECESSION OF 1980; RESPONSE, OUTCOME

Beijing XIANDAI GUOJI GUANXI [CONTEMPORARY INTERNATIONAL RELATIONS] in
Chinese No 7, Sep 84 pp 52-57

[Article by Li Changhuan [2621 2490 3562] and Cao Shigong [2580 0013 0501]]

[Abstract] The pivotal economic indicators of investment, employment and foreign trade declined during South Korea's 1980-1982 recession. Industrial and mining indicators rose only slightly during this recession period because domestic construction and consumption served as major stimulants to the economy. The main causes of the recession were over-reliance on foreign capital, a skewed industrial structure with high proportions of heavy and chemical industries, deteriorating international competitiveness on account of obsolete equipment in export-oriented industries, heavy foreign debt, and inflationary pressure.

In addition to stimulating its domestic economy, South Korean authorities supported the highly competitive manufacture of automobile assemblies, ship-building, electronics, and traditional light industry such as textiles in order to boost export trade while interference with and control of the economy were reduced. The greatest support has been given in upgrading science and technology with computers as the focal point. These measures and the cyclical economic upturn in Western nations in 1983 pulled South Korea out of its recession, with the year's 9.3 percent economic growth being the highest in recent years. However, the heavy foreign debt (\$40.1 billion by the end of 1983) remained as a drag on the economy. Basic scientific research is still weak. These factors indicate that the nation is still on a zigzag course of economic progress. With accumulation of a material and technical base since the 1960's as well as cooperation with monopoly capital in the United States and Japan, South Korea's economy will continue to grow if political stability can be assured.

10424/13167
CSO: 4011/15

HONG KONG

HONG KONG BANKER PREDICTS SLOWDOWN FOR TRADE WITH PRC

HK030537 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 3 Feb '86 p 1

[By Paul Sham]

[Text] China's curbs on foreign exchange spending will remain in force for some time, and may last longer in certain cities, according to a leading local banker.

In an interview with BUSINESS NEWS, the director and deputy general manager of the Hang Seng Bank, Mr T. C. Ho, said 1986 is definitely not a year of optimism for China business.

"In contrast to what most people think, China will need an extended period of time to correct its overheated economy," Mr Ho said.

"It is not a matter of several months or one year, and the period of tight control will depend on how well China succeeds in its bureaucratic reshuffling, how good it is at planning an urban economy, and measures to curb the forex drain."

In addition, he said China's huge size means the government's tighter policy will take a long time to trickle down to the regions.

But once it has reached the four corners of the country, its effects will linger longer, he said.

He said China's recent call to halt the spread of corruption and materialism signifies the beginning of a period of economic doldrums.

"Based on past experience, such a campaign will generally follow with a long duration of slow activity of all kinds," he said.

Whereas China's local finance and trade officials are reluctant to strike any new deals, foreign bankers and businessmen are also becoming "very selective" in involving themselves in new projects.

During this period, when some officials or companies might end up in trouble, he said the only safe way out is to be cautious and patient,

Mr Ho said a quick solution to narrow China's growing trade deficit, which in a large part prompted the spending curbs, is unlikely in the foreseeable future.

He said when a country wants to improve its foreign exchange reserves, the two possible ways are to boost exports or curb spending on imports.

In light of the mounting protectionism worldwide and the weak export potential for some China-made products, Mr Ho said the only solution left for China was to cut its imports.

China still has a long way to go to improve its products' variety and quality to suit world markets, he said.

Besides, the less rapid economic growth of China's major trade partners, such as Hong Kong and the U.S., will thwart its efforts to boost exports.

"Since China's exports will not see fast growth in the near future, the country can only be frugal in its spending," Mr Ho said.

For some Chinese cities or provinces which have experienced faster economic growth in the past few years, the period of compression will be even longer, he said.

"The overheated economy in these areas, particularly Shenzhen, will need more time to cool down," he said.

So far as the banking business is concerned, the "slow situation" has been made worse by the growing competition from numerous foreign banks in the market.

Compared with interest rates of one percent above Libor or Hlibor generally offered in the past, he said some banks now offer loans to China at interest as low as 0.25 percent above the two interbank rates.

Nevertheless, Mr Ho said the current tight situation only reflects China's genuine desire to pursue its goals of an open-door policy.

The current policy is just a correction, not a move towards a closed door approach, he said.

Mr Ho said after China puts its house in order, foreign bankers and businessmen will benefit from a stable and flourishing market.

"China trade should be a long-term business," he said, adding what happens this year will not reflect the potential of this market.

Though China's economy will pick up slowly (if at all) for the next one to two years, Mr Ho said this market is still attractive.

/12929

CSO: 4020/202

HONG KONG

REPORT NOTES BUSINESS UNCERTAINTY IN HONG KONG

HK060448 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in
English 6 Feb 86 p 3

[By Paul Baran]

[Text] China's lengthening shadow over Hong Kong will create short-term nervousness and uncertainty within the business community despite reductions in the territory's domestic and external economic risks, according to a leading risk evaluator.

The latest report on Hong Kong by Political and Economic Risk Consultancy Ltd gives the territory good marks on economic fundamentals, but upgrades the political risk factor to five from two on a scale of 10.

However, says the report, China "is unlikely to interfere at all with economic policy matters" while increasing its influence over Hong Kong's political development.

In its forecast for this year's economic performance, the report says the end result won't be much different from last year.

Although the territory "is in danger of being enveloped in a mood of excessive pessimism" because of last year's poor performance, the report says Hong Kong is nearing, or has already reached, the bottom of its down cycle.

Any upturn will be gradual, with industries like regional banking lagging behind due to slack loan demand in Asia and textiles affected by protectionism in the U.S., the report says.

But "there are strengths in other areas, however, which will hold the economy steady in the coming year."

There are several key areas to watch, it says. Now the government's budget is out of the red, the authorities "have a bit more leeway to loosen their purse strings."

Direct fiscal spending "will not turn stimulatory, but a relaxation of the austerity programme would reduce some of the drag on the economy."

Several government projects will provide a fillip to the economy, the forecasters say.

The most important one is the second cross-harbour tunnel project, which involves initial capital of 3 billion, followed by the expansion of the Kwai Chung container terminal, which will take 2 billion to complete.

"Although neither of these projects are of the magnitude of the Mass Transit Railway project, which is now winding down, they should pick up some of the slack and help to underpin the economy for the next few years."

The other area is consumer spending, says the report. Average pay increases were more than double the three percent inflation rate last year, and workers have been saving more and borrowing less, except for car sales, which are booming.

But China's increasing involvement in the territory's life could dampen spending this year, the report says.

"Nerves are likely to be on edge" this year as China begins shaping its own political system locally and the population realizes the British authorities "do not have nearly the degree of independence" that they had previously to rule Hong Kong.

The report says those with spending power -- the ones most likely to emigrate -- may choose to save instead of spending.

For the year ahead, the report forecasts real gross domestic product will wind up in the four to five percent range, domestic exports will be flat after last year's decline and re-exports will slow further.

On the bright side, consumer spending is forecast to pick up, "but not fast enough to take up the slack in the export sector."

Inflation should stay in the single-digit range and employment should remain stable.

The state of local industry is clear from available statistics, the report says, noting the hardest hit in the fourth quarter were plastics, fabricated metal products and electronics.

"Conditions are weak but steady in most other industries, including textiles, wearing apparel and watches and clocks."

Sagging exports have pared investment in plant and machinery.

Manufacturing investment should remain slow as local industrialists wait for the prospects for overseas sales to become less uncertain, it says.

In the property market, last year's sharp upturn will not be repeated this year, the report says.

It notes "large supply of deluxe residential property, both for sale and rent, is expected to come on stream in 1986."

Take up of small flats is also likely to weaken because of the large number of projects completed by the public sector.

With buying power strong, fuelled by low inflation and unemployment, consumption should gain momentum this year, the report says.

Although consumers are not likely to go on a spending spree, consumption should grow about seven percent, which compares with the official forecast for last year of about 5.5 percent.

The report also forecasts a reshuffle in the government's economic branch, but no major changes to the overall fiscal policy.

It also expects the ongoing shake-out among deposit-taking companies to continue, along with a move by local banks to restructure their capital bases.

/12929

CSO: 4020/202

HONG KONG

HONG KONG TEXTILE MANUFACTURERS REMAIN UNEASY

HK070405 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 7 Feb 86 p 1

[Text] Hong Kong's jittery garment manufacturers continue to fear that China may swallow Hong Kong's garment quota to the U.S. and other countries after 1997 and give it to its own domestic factories.

Such a move would cripple the garment and textile industry in Hong Kong, which will then be administered by China as a Special Administrative Region.

The issue is one of the many trade-related areas being discussed by the Joint Liaison Group [JLG].

Among them are Hong Kong's continued membership in Gatt and its obligations under existing bilateral trade agreements.

In the absence of clear signals from the ongoing JLG talks, many in the trade fear the worst.

"There is no way China is going to allow private ownership of quotas," one source said.

"They'll probably dish it out in the provinces where there are plenty of factories that need orders," the sources said.

Another source said that in the past few years China has been unable to use all its quotas on some categories because it has priced itself out of the market.

Previously, said the source, U.S. buyers would give orders to factories in China "because they were so cheap."

"There was no way a Hong Kong factory could match their job price," the source said.

Volume was so large that China -- which has less quotas than Hong Kong -- used up its available quotas by mid-year, resulting in a subsequent embargo of imports from the country by the U.S. Customs Service.

But this pattern changed after China "jacked up the prices and priced itself out of the market."

As a result, the source said, China's quota utilization of popular categories has plummeted, leaving many factories short of orders.

/12929

CS0: 4020/202

HONG KONG

PRC BANKS LOOK TOWARD EUROPEAN CURRENCY UNIT MARKET

HK040904 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in
English 4 Feb 86 p 1

[By Chito Santiago and Meiling Liu]

[Text] A growing number of China banks are aggressively moving into the European Currency Unit [ECU] market offering ECU deposits as an alternative to the foreign currency deposit schemes in the local market.

At least two more banks, the Kincheng Banking Corp and the Yien Yieh Commercial Bank, joined the fray yesterday while China and South Sea Bank will launch its own programme at the end of this month.

This trend illustrates the growing worldwide popularity of the ECU, particularly at this time when the major currencies are being subjected to volatile foreign exchange rates.

The ECU is a basket of currencies consisting of fixed amounts of the currencies of the member countries of the European Economic Community.

Although sterling is not included in the basket, many banks have been quoting ECU's against it and the U.S. dollar.

One ECU yesterday was quoted at 0.9090 against the greenback, and between 7.09 and 7.12 against the Hong Kong dollar.

Kincheng's assistant general manager, Mr. K. W. Shum, told BUSINESS STANDARD that the current appreciation of some of the European currencies against the U.S. dollar gives depositors an opportunity to earn more by switching into ECU's.

This is on top of the higher interest rates being quoted for ECU deposits.

For instance, Kincheng yesterday was offering 10.125 percent per annum for one-month ECU, against 7.5625 percent p.a. for one-month U.S. dollar.

The bank set 1,000 ECU as its minimum requirement, quoting rates for one, two, three and six months.

"The ECU deposit business is likely to grow, although it's still not known to many people here," Mr Shum said.

He described the response to their initial launch as keen and in fact, generated a business volume, which is higher than they expected.

Yien Yieh was also quoting ECU deposits at one, two, three and six-month maturities and the interest rates vary according to their size.

For example, a 5,00 ECU deposit yesterday commanded 10 percent p.a., against only 7 percent p.a. for 1,100 ECU.

Besides higher interest earnings, the volatility of ECU exchange rates is much lower than other currencies.

Other Chinese banks which have so far introduced ECU deposit schemes this year include the Po Sang Bank and the Bank of Communications [BoC].

Po Sang introduced its own scheme on January 8 and its deputy general manager, Mr Fung Chi-kin, said the response has been "very good." BoC made its launch on January 20.

French Banks, such as Credit Lyonnais and Banque Nationale de Paris [BNP] were among the first foreign institutions to introduce the ECU deposit programme in Hong Kong.

BNP yesterday quoted 10.375 percent p.a. interest for one-month ECU, with the minimum deposit pegged at U.S. \$5,000 equivalent.

These French banks have also set up separate desks for ECU accounts locally considering that a number of Asian borrowers have issued ECU-denominated Eurobonds.

In August last year, the Mass Transit Railway Corp [MTRC] became the first Hong Kong entity to tap this market when it offered 50 million ECU worth of bonds.

The proceeds of this issue were converted into Hong Kong dollars through a swap transaction, thus enabling the MTRC to obtain cheaper funds.

/12929

CSO: 4020/202

END